



Financial Management Accountability

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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 2000 Performance and Accountability Report, the Department is in compliance with the provisions of Section 2 of the Federal Managers' Financial Integrity Act (FMFIA) of 1982. With regard to Section 4, I am not able to certify that HUD is in full compliance with FMFIA. While significant improvements in HUD's financial systems have been made, HUD continues to work diligently to ensure the Department's full compliance with capturing standard general ledger information at the transaction level.

Please be assured that the Department is fully committed to bringing its internal controls and systems into full compliance with the requirements of FMFIA.



Mel Martinez, Secretary
Department of Housing and Urban Development

Material Weaknesses and Management Concerns

HUD continues to make progress in addressing each of the open material weaknesses reported in prior FMFIA assurance statements, as independently verified by the Office of the Inspector General (OIG) in annual audits of the Department's Financial Statements. At the beginning of FY 2000, the Department had three open material weaknesses, two of which are now considered closed by HUD management.

Material Weaknesses FY 1999 Carry Over Issues and FY 2000 Status

First Reported	Material Weakness	Status at End of FY 2000
1996	Monitoring of Insured Mortgages and Multifamily Projects	Closed
1996	Controls Over Rental Subsidies ¹	Open
1998	FHA Federal Basis and Budgetary Reporting	Closed

¹ This material weakness has been presented in previous reports as "Income Verification". HUD has expanded the weakness to include all issues associated with improving controls over rental subsidies.

Management Concerns (MC) are former material weaknesses or other deficiency issues for which sufficient actions have been taken to reduce the level of risk below the materiality threshold, but still require additional management action to eliminate the deficiency. At the beginning of FY 2000, HUD recognized 14 MC areas. At the end of FY 2000, management considered two MCs closed, one MC was combined with an expanded material weakness area, and one new MC was identified leaving 12 remaining MCs.

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Management Concerns FY 1999 Carry Over Issues and FY 2000 Status

Carry Over/ New Issues	Management Concern	Status at End of FY 2000
MC1	Performance Measures	Open
MC2	Project-Based Subsidy Payments	Combined ²
MC3	PHA Monitoring	Open
MC4	HUD's Computing Environment	Open
MC5	Personnel Security Over Systems	Open
MC6	HUDCAPS Access/Data Integrity	Open
MC7	Obligation Balances	Open
MC8	FHA Loss Prevention	Open
MC9	SF Mortgage Notes Servicing	Closed
MC10	SF Property Inventory	Open
MC11	FHA Reserve Estimates	Closed
MC12	FHA Systems Controls	Open
MC13	Resource Management	Open
MC14	Management Controls	Open
New	Reconciliation with Treasury Balances	Open

² This prior management concern has been combined as part of the expanded material weakness on Controls Over Rental Subsidies

FY 2000 Management Control Improvement Efforts

During Fiscal Year 2000, HUD continued its comprehensive efforts to strengthen its management control environment and improve internal controls over major programs. For the most part, HUD's June 1997 reform plans have been fully implemented, and the Department is clearly better utilizing its existing resources to provide a more effective and efficient delivery and oversight of its housing and community development programs.

As a result of the development and implementation of new automated program performance assessment systems by the Real Estate Assessment Center (REAC), HUD now has more information on the compliance and performance of its program participants than ever before. More importantly, HUD is acting on this information to improve program compliance and performance, through the efforts of the new HUD Enforcement Center and program monitoring staff.

REAC provides HUD with a new level of management capability by consolidating and expanding the scope and quality of HUD's oversight of more than 3,100 public housing agencies and approximately 29,000 multifamily properties. REAC provides timely, accurate, and objective assessments of physical condition, financial soundness, management capability, and resident satisfaction for the HUD-assisted real estate portfolio. Additionally, REAC facilitates income verification of public and multifamily housing recipients to ensure that housing subsidies are properly paid, and assesses the quality of nearly one million single family appraisals performed for new homebuyers annually.

HUD's Departmental Enforcement Center (DEC) addresses distressed properties and serious non-compliance with statutory and regulatory requirements for public housing, multifamily and single family properties. This initiative combines previously dispersed non-civil compliance and enforcement actions into one organization. The DEC's mission is twofold: first and foremost, to protect residents by improving the quality of their housing; second, to aggressively pursue owners responsible for poor housing conditions. HUD has demonstrated through the DEC that it is serious about enforcement.

The Department's program monitoring staff work exclusively to administer program grant competitions and oversee program operations to ensure that Federal funds are used in compliance with laws and regulations. They also carry out HUD's FY 2000 Compliance and Monitoring Initiative. In addition to other things, the FY 2000 Compliance and Monitoring Initiative resulted in the conduct of a four-day Compliance and Monitoring Training Program designed to bring consistency and uniformity to HUD's monitoring processes in Headquarters and the Field. Thirteen training sessions were held and over 1,200 employees with monitoring and compliance responsibilities received training.

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In June 2000, the Department launched the Quality and Management Review (QMR) Program by conducting onsite performance evaluations of field office operations. These reviews provided Principal Staff with an internal assessment of program operations and efficiencies, as well as deficiencies. The reviews provided for early-warning alerts to emerging management issues or problems, and the opportunity to provide immediate technical assistance, training, and corrective actions.

New evaluation systems emphasize accountability for results. HUD's Business and Operating Plan, now in its third full cycle, holds organizations responsible for delivering specific results tied to HUD's Strategic and Annual Plans under the Government Performance and Results Act. Likewise, the Executive Performance and Accountability System for senior executives and the Performance Accountability and Communication System for managers and supervisors, both implemented in December of 1999, hold managers throughout the Department accountable for accomplishing HUD's strategic goals.

HUD's recent management reforms have provided a structure to better utilize HUD's existing resources to restore the public trust in HUD's program delivery, oversight and outcomes. However, to complete the job, HUD needs to assure consistency in the operation of internal control improvements already put in place, and complete corrective action on remaining material weakness and management concern issues. More information on HUD's FY 2000 management improvements is provided under the caption "Ensure Public Trust in HUD" in the "Discussion and Analysis of Operations" section of this report.

Planned Actions on Remaining Material Weakness

HUD's internal controls over its significant rental housing subsidy programs do not provide reasonable assurance that subsidies are paid in the proper amount. HUD expended over \$18 billion on housing subsidies in FY 2000, for its various public housing and Section 8 tenant-based and project-based rental assistance programs. HUD's annual

estimation of subsidy overpayments due to tenant underreporting of income was \$617 million. In addition, attention to the nature and magnitude of the problem was significantly expanded upon the mid-January 2001 release of an interim HUD Office of Policy Development and Research report on "Quality Control for Rental Assistance Subsidies Determinations." This report estimated annual subsidy overpayments of \$1.9 billion, and subsidy underpayments of \$685 million, due to a variety of rent calculation errors by the public housing agency, project owner and management agent intermediaries that administer these programs. Further details on these estimates are provided in Footnote 17 in the "Notes to Financial Statements" section of this report.

Since the sources and causes of subsidy payment errors are many and often interrelated, a comprehensive corrective action plan is needed. HUD's prior corrective action focus has been on developing and implementing a large-scale computer matching program with IRS and SSA data bases to better address the unreported tenant income issue. While this and other improvement initiatives are on-going, a multi-organizational HUD Working Group has been tasked with developing viable options for a more comprehensive corrective action plan to be considered by the new administration. The Working Group is considering options for:

- Program simplification,
- Structured forms, training and automated tools needed to determine rent correctly,
- Tenant education,
- Increased use of automated tenant income data sources at the local and national level,
- Improved targeting of on-site management and occupancy reviews based on risk indicators,
- Intermediary performance incentives and sanctions,
- Improved automated billing verifications, and
- An on-going quality control program.

Addressing this material weakness will be a major focus for HUD in FY 2001. Additional information on this and other major management challenges facing the Department is provided in the “Management and Performance Challenges and Progress” section of this report.

Financial Management Systems

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

Material Nonconformances Carried Over from FY 1999

First Reported	Material Nonconformance	Status at End of FY 2000
1989	Departmental Financial Management Systems	Open
1991	FHA Accounting and Financial Management Systems	Open

Departmental Financial Management Systems

In FY 2000 the CFO addressed the concerns identified in the financial audit of the Department’s FY 1999 financial statements resulting in a disclaimer of an audit opinion. Causes for the disclaimer were principally attributed to major system conversion activities under the Financial Systems Integration Project (FSI) that disrupted normal account reconciliation. In addition to addressing the disclaimer issues, the CFO implemented the strategy to complete the FSI project to establish a core financial management system that substantially complies with the requirements of the Joint Financial Management improvement Program (JFMIP). As of November 30, 2000, the HUD Central Accounting and Program (HUDCAPS) was established as the core standard general ledger, in substantial compliance with JFMIP requirements.

HUD has made considerable progress over the years in addressing financial management system non-compliance with FFMIA and OMB Circular A-127 requirements. Over the course of less than 10 years, HUD has reduced the number of non-compliant systems from 98 non-conforming systems

as of fiscal year end 1992 to 11 non-conforming systems as of fiscal year end 2000. A listing of the non-compliant systems is in Appendix A-2. HUD has analyzed its financial management systems individually to identify the cause(s) of non-compliance, develop the individualized requirements to address the deficiencies, and taken actions to implement the corrective actions to resolve the deficiencies.

In FY 2000, the Office of the Chief Financial Officer developed a “Vision” for the next generation core financial management system for the Department, and supported the corresponding purchase of a commercial off-the-shelf (COTS) financial management system software package that will be used to upgrade FHA’s subsidiary ledger systems. The COTS purchase was made through an economical licensing agreement that can be used to pursue other aspects of the CFO’s Vision, pending adherence to the discipline of HUD’s Systems Development Methodology.

FHA Accounting and Financial Management Systems

Non-conformances in FHA’s financial management systems over the years have related to a deficient general ledger and subsidiary systems that impede better case level reporting, budgetary accounting, and compliance with Credit Reform. The purchase of the COTS software package will provide for automatic postings to the Standard General Ledger, and several other modules will also incorporate business functions currently being performed by multiple legacy mainframe systems. Once implemented, the subsidiary general ledger will address one of OMB’s outstanding concerns over the number of mainframe systems FHA is currently supporting.

The implementation of a new subsidiary general ledger for FHA will be accomplished in several phases over multiple years, and will address the deficiencies identified with the Department’s current non-compliant systems. The COTS package will bring FHA into compliance with Federal Financial Management guidelines. The current phase of the implementation is on track and proceeding according to plan.

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The FHA's Office of Single Family Housing has also initiated a study of the home mortgage origination process. The FHA systems involved in Single Family underwriting are over 10-years old and reflect business operations and processes as they were, not as they are now. Similarly, the technology base for these systems is out-of-date. The study will include identifying opportunities for consolidation of system functions.

Other Financial Management Systems Activities

Under the leadership of the Chief Information Officer, the Department:

- Continued to establish and enforce a capital planning and investment discipline consistent with provisions of the Clinger-Cohen Act and the Paperwork Reduction Act, as well as GAO's and OMB's guidelines for selecting, controlling, and evaluating information technology investments.
- Initiated a Critical Infrastructure Protection Support effort to establish an operational framework that ensures the continuing integrity of the HUD's critical physical information technology and voice communications infrastructures to HUD's staff and external partners.
- Developed a HUD enterprise security architecture strategy that includes leveraging existing data sources and hardware components.
- Developed a HUD Enterprise Security Remediation Program Plan that evaluates the current state of the HUD security infrastructure, both physical and information based, and outlines the requirements for compliance with Presidential Decision Directive-63.
- Implemented a process for the Cash, Control, Accounting and Reporting System (CCARS) for electronic submission of disbursements and cash collections directly to the U.S. Treasury Department.
- Reworked the Disbursements Subsystem for the Single-Family Acquired Asset Management System (SAMS), including transmittal, prompt pay, check, invoice, tax, and billing. In addition, Electronic Funds Transfer functionality was added.
- Completed enhancements for the Debt Collection Asset Management System (DCAMS) that established greater activity between HUD and the U.S. Treasury. Moved from hand delivered files to Connect Direct software for sending files over dedicated lines to Treasury.
- Implemented enhancements to the FHA Connection, FHA's electronic commerce between FHA and the community of approved FHA lenders and service providers who can submit a variety of official FHA business transactions to FHA systems.
- Reports for the Home Equity Conversion Mortgage (HECM) and the Multifamily Default and Delinquency Reporting System (MDDRS) reports can be accessed.
- Developed new capability, expected to go live in FY 2001, that will eliminate a large volume of paper claims by enabling the Single Family Claims Sub-system to receive loss mitigation claims electronically via the FHA Connection. This process is currently being piloted by two mortgagees, and will provide immediate feedback to mortgagees.
- Completed Direct Connect modifications to support addition of Tax Identification Numbers (TINs) to several FHA Connection functions.

The Department also focused much of its activity on electronic communications and facilitation of data via Internet technology in FY 2000.

Office of Housing

- Implemented a Internet based Voucher Detail/Summary Report for the Tenant Rental Assistance Certification System, TRACS, to download into an ASCII file.

Community Planning and Development

- Established Internet access to the Integrated Disbursement and Information System (IDIS).

Real Estate Assessment Center

- Implemented a secure Internet facility for transmitting social security and supplemental security income to owners/ agents.

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, 1999 through September 30, 2000. 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 FY 2000, 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 199 recommendations without a management decision. During FY 2000, 907 recommendations requiring management decisions were added to our active workload and management decisions were made on a total of 681 recommendations. The fiscal year ended with 425 recommendations without management decisions of which 48 were beyond the statutory period of 6 months.

Summary of Recommendations Without Management Decisions October 1, 1999 – September 30, 2000

Opening Inventory	199
New Audit Recommendations Requiring Decision	907
Management Decisions Made	(681)
Audit Recommendations Awaiting Management Decisions	425
Audit Recommendations Beyond Statutory Period	48

Recommendations With Management Decision But No Final Action Taken

The Department began the year with an inventory of 1,057 management decisions requiring final action, and final action was completed on 595 of these. During the year 681 additional management decisions were made for which 238 final actions were completed. During FY 2000, the Department completed final action on a total of 833 recommendations. The total number of audit recommendations with management decisions but final actions not yet completed currently stands at 935 and includes 30 audit recommendations reopened during the year. Of this 935 number, 89 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 October 1, 1999 – September 30, 2000

Opening Inventory	1,057
Final Action Taken	(595)
Awaiting Final Action	462
Management Decisions Made During FY 1999	681
Final Action Taken	(238)
Recommendations Requiring Final Action	443
Sub-Total No Final Action at End of Period	905
Audit Recommendations Reopened (Without Final Action)	30
Total Audit Recommendations Requiring Final Actions	935

The opening inventory reflects a prior period adjustment for 28 recommendations in the 9/30/99 ending inventory, for which final action had previously occurred.

Note: The Department has 89 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, 1999, there were 148 audits with management decisions on which final action had not been taken, with a dollar value of disallowed costs totaling \$178 million. During FY 2000, management decisions were made for 38 audits with disallowed costs totaling approximately \$31.8 million. The Department had 36 audits in which final action was taken during the fiscal year, with approximately \$5 million in recoveries and \$17 million in

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write-offs. As of September 30, 2000, there were 150 audits with disallowed costs awaiting final action, with an associated value of approximately \$187 million.

Note that the Inspector General Act requires reporting at the audit report level versus the individual recommendation level. At the audit report level, disallowed costs are not recorded until all recommendations in a report are closed. When reporting is done at the more detailed recommendation level, the \$187 million of disallowed costs awaiting final action are reduced by \$50 million (see footnote 5).

Management Report on Final Action on Audits with Disallowed Costs for the Fiscal Year Ending 9/30/00

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.	148	\$178,024,919 ¹
B. Audit reports on which management decisions were made during the period.	38	\$31,803,938
C. Total audit reports pending final action during period	186	\$209,828,857
D. Audit reports on which final action was taken during the period		
1. Recoveries	27 ²	\$4,988,280
(a) Collections and offsets	26	\$4,939,757
(b) Property	0	\$0
(c) Other	2	\$48,523
2. Write-offs	27	\$16,986,316
3. Total of 1 and 2	36 ³	\$21,974,596
E. Audit reports needing final action at the end of the period (subtract D3 from C)	150 ⁴	\$187,854,261
	(314) ⁵	(\$137,394,407)

¹ Includes one retroactive entry made after end of prior period.

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

³ Audits will not add by 18 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 28 audit reports with costs totaling \$28,131,866.

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, 1999), there were 18 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 \$8.5 million. The Department had 2 recommendations on which final action was taken during the fiscal year with a dollar value of \$3.1 million, and 2 recommendations totaling \$5 million that management concluded should not or could not be implemented. At the end of the period (September 30, 2000), there were 16 audits with recommendations to put funds to better use awaiting final action with an associated value of approximately \$6.7 million.

Management Report on Final Action on Audits With Recommendations That Funds Be Put to Better Use for the Fiscal Year Ending 9/30/00

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	18	\$8,541,738
B. Audit reports on which management decisions were made during the period	2	1,752,772
C. Total audit reports pending final action during period (Total of A and B)	20	\$10,294,510
D. Audit reports on which final action was taken during the period		
1. Value of recommendations implemented (completed)	2	\$3,091,081
2. Value of recommendations that management concluded should not or could not be implemented	2	\$530,000
3. Total of 1 and 2	4	\$3,621,081
E. Audit reports needing final action at the end of the period (Subtract D3 from C)	16 ¹	\$6,673,429
	(13) ²	(\$4,260,318)

¹ Litigation, legislation, or investigation is pending for 2 audit reports with costs totaling \$547,891.

² 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)
2000	\$12,902	\$1,166	\$3,707

During fiscal 2000, HUD collected \$3.7 billion of delinquent debts. In FY 2000, Due Process Notices were sent to 7,903 delinquent debtors advising them that their debts were past due. These notices provide the debtor with the right to establish a repayment plan or appeal the enforceability of the debt through the HUD Board of Contract appeals or an Administrative Law Judge (Federal employees). Debtors who fail to make payment arrangements or successfully appeal the enforceability of the debt are referred to Treasury where they are subjected to aggressive collection efforts, including offset of federal payments. During FY 2000, the Department continued to send notices to delinquent debtors on a weekly basis.

During fiscal 2000, HUD referred 19,067 debts totaling \$258 million to Treasury for offset, and total collections via offset during fiscal 2000 were \$4.2 million. The Department also sent 10,089 Title I cases totaling \$140.0 million to Treasury for cross-servicing during the year, and total collections were \$14.0 million.

The automated write-off process included 5,324 Title I cases totaling \$72 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 ten-year Statute of Limitations, and accounts with small balances which qualified for write-off as paid in full. The write-off decreased the Title I portfolio by 13 percent.

The Department remains committed to maximizing collections using all available resources and will continue to work closely with systems contractors and Treasury to achieve systems and process improvements necessary to maintain compliance with the Debt Collection Improvement Act. In FY 2000, the Department completed systems enhancements

to begin the referral of delinquent debtors to Treasury for cross-servicing on a weekly basis. We also began electronic submission of financial updates to Treasury. In the near future, we expect to achieve full scale electronic communication with Treasury which will enable us to send and receive payment information electronically.

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 Y2K 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 were ready by 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 nation's 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. HUD met the millennium change without incident.