Other Accompanying Information

U.S. Department of Housing and Urban Development
Office of Inspector General
451 7th St., SW
Washington, DC 20410

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MEMORANDUM FOR: Shaun Donovan, Secretary, S

Michael P Stephens

FROM: Michael P. Stephens, Acting Inspector General, G

SUBJECT: Management and Performance Challenges

In accordance with Section 3 of the Reports Consolidation Act of 2000, the Office of Inspector General (OIG) is submitting its annual statement to you summarizing our current assessment of the most serious management and performance challenges facing the U.S. Department of Housing and Urban Development (HUD or the Department) in fiscal year 2011. Through our audits, investigations, inspections, and evaluations, we work with departmental managers in recommending actions that best address these challenges. More details on our efforts in relation to these issues can be found in our Semiannual Report to Congress.

The Department's primary mission is to create strong, sustainable, inclusive communities and quality, affordable homes for all. HUD seeks to accomplish this mission through a wide variety of housing and community development grant, subsidy, and loan programs. Additionally, HUD assists families in obtaining housing by providing Federal Housing Administration (FHA) mortgage insurance for single-family and multifamily properties. HUD relies upon numerous partners for the performance and integrity of a large number of diverse programs. Among these partners are cities that manage HUD's Community Development Block Grant funds, public housing agencies that manage assisted housing funds, HUD-approved lenders that originate and service FHA-insured loans, Government National Mortgage Association (Ginnie Mae) mortgage-backed security issuers that provide mortgage capital, and other Federal agencies with which HUD coordinates to accomplish its goals. HUD also has a substantial responsibility for administering disaster assistance programs. Currently, HUD is also administering new mortgage assistance and grant programs in response to the Nation's financial crisis, increase in foreclosures, and declining home values.

Achieving HUD's mission continues to be an ambitious challenge for its limited staff, given the agency's diverse programs, the thousands of intermediaries assisting the Department, and the millions of beneficiaries of its housing programs. The continuing national credit and financial crisis is having a profound impact on HUD. Proposed and new program changes have introduced new risks and enforcement challenges. More specifically, the $13.6 billion American Recovery and Reinvestment Act of 2009 (Recovery Act) increased the oversight responsibilities for the Department for the next 2 years. In addition, Congress allotted another $1 billion to the Neighborhood Stabilization Program and $1 billion to the new Emergency Homeowners Loan Program to help homeowners who have become unemployed or underemployed keep their homes. HUD is also a key to the Nation's mortgage industry where the market share of FHA-insured mortgages has increased dramatically from 1.9 percent in 2006 to 30 percent in 2010. The attachment discusses these and other challenges facing HUD.

Attachment

The complete Office of Inspector General memorandum is located online at http://www.hud.gov/offices/cfo/reports/pdfs/2010mpc.pdf, and is extracted and segmented on the following pages, along with additional management updates on progress addressing each challenge

Office of Inspector General's Management and Performance Challenges

HUD Management's Perspective

The Department's management and the OIG have worked in a close, collaborative manner during the past year, recognizing the challenges facing the Department and the country. Management agrees with the OIG's assessment of major challenges facing the Department. Following each of the OIG's narrative of the challenges (displayed in shading), management has provided updates concerning the Departmental progress in addressing each challenge.

Challenge: Single-family programs

FHA's single-family mortgage insurance programs enable millions of first-time borrowers and minority, low-income, elderly, and other underserved households to realize the benefits of home ownership. HUD manages a growing portfolio of more than $873 billion in single-family insured mortgages. Effective management of this portfolio represents a continuing challenge for the Department.

HUD has sustained significant losses in its single-family program and is taking on additional risk. The number of FHA mortgages has risen dramatically. The increased mortgage endorsement volume is accompanied by increases in defaults, claims, and loss mitigation. FHA's Mutual Mortgage Insurance (MMI) fund has fallen below the legally required 2 percent capitalization ratio. Recent legislation gave the HUD Secretary more flexibility regarding premiums charged for mortgage insurance. As a result, HUD decided to raise the annual premium and lower the upfront premium to aid in returning the MMI fund to congressionally mandated levels without disruption to the marketplace.

FHA plays a major role in supporting the housing market. The current degree of FHA predominance in the market is unparalleled. It is clear that the Department is committed to positioning FHA as rapidly as possible to deal with the changing dynamics. For the first time, FHA has imposed a minimum credit score to be eligible for FHA financing and set loan-to-value ceilings dependent on credit scoring. We have expressed concerns that the credit score threshold HUD will use is traditionally considered subprime territory in the conventional marketplace. HUD also moved to strengthen its lender population by increasing its net worth requirements (minimum of $l million). Further, after December 31, 2010, loan correspondents (also referred to as sponsored third-party originators) must establish a sponsorship relationship with an FHA-approved mortgage lender to continue participating in FHA programs.

By law, HUD has to pay the claim on a defaulted FHA-insured mortgage but can go back to the lender and recover the losses incurred if it finds that the loan was ineligible for insurance. OIG has noted in past audits HUD's unnecessary exposure when paying claims on loans that were never qualified for insurance. In the current year, we conducted Operation Watchdog, an initiative that involved reviewing the underwriting of 284 mortgages underwritten by 15 direct endorsement lenders. HUD had paid claims on these loans that resulted or are likely to result in actual losses in excess of $11 million. Our review showed that 140 (49 percent) of the loans reviewed, a large and unacceptable percentage, never should have been insured.

FHA has introduced new loss mitigation programs. HUD and the Department of the Treasury announced enhancements to the existing Making Home Affordable Program, a refinance program that provides homeowners that owe more on their mortgage than the value of their home opportunities to refinance into an affordable FHA loan. Further, recent legislation provided up to $50,000 to homeowners on their mortgage principal, interest, mortgage insurance, taxes, and hazard insurance for up to 24 months. Eligible homeowners are those that have become unemployed/underemployed. The assistance will be worked through a variety of State and nonprofit entities and will offer a declining balance, deferred payment, zero interest, nonrecourse bridge loan, which HUD will write off if the homeowner stays current on the mortgage for 5 years. Setting up and monitoring this program in the time Congress has allotted will be a challenge.

We remain concerned that increases in demand to the FHA program are having collateral implications for the integrity of the Ginnie Mae mortgage-backed securities program including the potential for increases in fraud in that program. HUD needs to consider the downstream risks to investors and financial institutions eventual securitization of a large proportion of FHA's insured mortgages. Ginnie Mae securities are the only mortgage-backed securities to carry the full faith and credit guaranty of the United States. If an issuer fails to make the required pass-through payment of principal and interest to investors, Ginnie Mae is required to assume responsibility for it. Typically, Ginnie Mae defaults the issuers and assumes control of the issuers' mortgage-backed security pools. Like FHA, Ginnie Mae has seen an augmentation in its market share (it has even in some recent months surpassed both Fannie Mae and Freddie Mac) and guaranteed $412 billion in outstanding mortgage-backed securities during fiscal year 2010 and now has $1 trillion in outstanding mortgage-backed securities.

The Department's Progress

Single Family Programs

FHA shares OIG's concerns regarding the prudent management of its expanded insurance portfolio and is working to ensure that, as it continues to play a vital role in a volatile economy, it does so in a responsible fashion. As a result, FHA is acting to reduce risks and losses to the Mutual Mortgage Insurance (MMI) fund throughout the life cycle of the FHA lending process.

In establishing revised credit score requirements for FHA loans, HUD endeavored to balance the need to protect the MMI capital reserve account, while at the same time preserving the historical role of FHA in providing home financing vehicles during periods of economic volatility. The credit score thresholds established by HUD were selected after a careful analysis of FHA mortgage performance data. HUD believes that the newly implemented credit score requirements achieve the appropriate balance necessary to permit FHA to continue providing access to homeownership opportunities while effectively managing risk to its insurance funds.

FHA has taken a number of other measures to reduce or eliminate risks to its insurance funds as well. As part of HUD's proposed rule issued July 15, 2010, HUD intends to strengthen its credit policy by reducing the allowable seller concessions permitted in an FHA transaction from six to three percent. Allowing sellers to contribute up to six percent of a home's sales price to offset a buyer's costs exposes the FHA to excess risk by potentially driving up the cost of the home beyond its appraised value. Reducing seller concessions to three percent will bring FHA into conformity with industry standards. Additionally, HUD intends to tighten underwriting standards for manually underwritten loans. These transactions have resulted in high mortgage insurance claim rates and present an unacceptable risk of loss. Together, these two measures will significantly reduce inappropriate risks and unnecessary losses connected with the origination of loans submitted for FHA insurance.

HUD also issued a proposed rule on October 8, 2010, to strengthen FHA's lender indemnification and insurance process. For those lenders with special authority to insure mortgage loans on FHA's behalf, HUD seeks to force indemnification for 'serious and material' violations of FHA origination requirements such that the mortgage never should have been endorsed by the mortgagee in the first place. Specifically, these lenders may be required to indemnify HUD if they failed to: (1) verify and analyze the creditworthiness, income, and/or employment of the borrower; (2) verify the source of assets brought by the borrower for payment of the required down payment and/or closing costs; (3) address property deficiencies identified in the appraisal affecting the health and safety of the occupants or the structural integrity of the property; or (4) ensure that the property appraisal satisfies FHA appraisal requirements. HUD may seek indemnification irrespective of whether the violation caused the mortgage default. The proposed rule will also require those mortgagees with delegated lender insurance authority to continually maintain an acceptable claim and default rate, both to gain this special lender status as well as to preserve it. HUD proposes that all new unconditional direct endorsement lenders who have the authority to self-insure mortgages must demonstrate a default and claim rate at or below 150 percent for the previous two years. These measures will ensure that lenders granted special authority to insure loans on FHA's behalf perform appropriately, and if they do not, will grant FHA the requisite authority to recover losses.

Along with these policy enhancements, FHA has begun the implementation of system changes which will facilitate lender and loan risk management. Under the FHA Transformation Initiative, FHA has begun a multi-year effort to modernize the technology infrastructure and applications for the origination and underwriting of FHA loans, the approval and recertification of FHA's lender partners, and the monitoring of those business partners. Under the FHA Risk and Fraud

Initiative, FHA has initiated contracts to enable more effective mitigation of credit risk and mortgage fraud utilizing cutting-edge analytical methodologies and IT solutions. These tools will help FHA to identify lender and loan-level weaknesses and respond faster to conditions affecting FHA's programs and insurance portfolio.

These improvements to FHA's policies and processes are components of a comprehensive effort by FHA to identify and eliminate potential areas of risk in its operations. FHA is confident that its work to improve its counterparty risk management capabilities and enhance its program requirements will significantly improve the performance of the FHA portfolio, and will permit the restoration of the Department's capital reserve fund to Congressionally mandated levels.

Ginnie Mae Risk Management

Ginnie Mae has continued to enhance its risk management processes in response to the substantially increased volumes in its programs. Ginnie Mae's loan matching program is one of the most important processes Ginnie Mae uses to mitigate the risk of fraud. This process involves a monthly review of every loan in the Ginnie Mae portfolio; during FY 2010, Ginnie Mae made further improvements to this process to focus Ginnie Mae's resources on potentially higher risk loans and higher risk issues. Ginnie Mae has taken additional steps to increase its oversight of issuers by reallocating existing staff to the Office of the Chief Risk Officer. Ginnie Mae is also in the process of adding additional staff in the Office of Mortgage-Backed Securities, both Account Executives and Monitoring staff, to increase oversight of its issuers.

Ginnie Mae is once again increasing the net worth requirements of its issuers, and continues to subject all new issuers to a one-year probationary period, which commences upon the first issuance of a Ginnie Mae MBS or upon the acquisition of a Ginnie Mae servicing portfolio. During this time, Ginnie Mae closely evaluates performance metrics, including loan-level insurance statistics and delinquency levels. Early payment defaults, staffing levels, and other operational and financial issues also are monitored. An onsite review is conducted within six months of approval and all findings must be cleared within a given timeframe.

Additionally, Ginnie Mae has expanded its capacity to review all its issuers from both an operational and financial perspective and taken steps to further mitigate exposure to fraud and abuse. Much of this effort is supported by Ginnie Mae's use of flexible staffing through contractors. In addition to the onsite reviews conducted for new issuers, existing issuers are reviewed onsite as necessary through regular monitoring of their financial statements, loan origination characteristics, and other performance measures. The Ginnie Mae Portfolio Analysis Database System (GPADS) helps track counterparty risk using portfolio statistics and comparing issuers with broader peer group activity. Ginnie Mae also is working more closely than ever with FHA, VA, and the Department of Agriculture's Rural Development on sharing loan data to detect and address fraud and other issues. One example of these efforts is an enhancement to the insurance matching program, which verifies the government insurance status of underlying mortgages that allows for the more timely identification and follow-up of loans lacking appropriate insurance documentation.

Challenge: Oversight of Recovery Act funds

Congress allocated $13.6 billion in funding to HUD programs under the Recovery Act. This allocation added significant funding to the Public Housing Capital Fund, Community Development Block Grants, Neighborhood Stabilization Program, Homelessness Prevention and Rapid Re-Housing Program, and other HUD programs to modernize and "green" the public and assisted housing inventory, support the low-income housing tax credit market, stabilize neighborhoods hit by foreclosures, and prevent homelessness. Carrying out the goals of the Recovery Act, while dealing with the influx of mortgages and refinancing, and conducting its normal operations is a significant challenge.

In general, the Recovery Act directs HUD to ensure that the $13.6 billion is awarded and distributed in a prompt, fair, and reasonable manner; that the recipients' use of funds is transparent to the public; that the funds are used for only authorized activities; that recipients avoid unnecessary delays and cost overruns; and that program goals are achieved, including specific program outcomes and improved results on broader economic indicators. This oversight role is a challenge. Further, HUD must assist all of its recipients in reporting their use of funds on the Recovery Act Web site. HUD also has to ensure that the data the recipients report are accurate. This type of reporting is unprecedented.

During the last two fiscal years we started and completed 88 audits and reviews of Recovery Act-related activities. These audits and reviews addressed the administrative capacity of selected Recovery Act grantees to meet their responsibilities to properly administer these funds. We also assessed HUD's efforts to assess the risks associated with Recovery Act funding along with the Department's plan to mitigate those risks.

Capacity issues of Recovery Act funding recipients will challenge HUD. For example, HUD decided to provide Recovery Act public housing capital funding to authorities it deemed "troubled." Currently, there are 174 troubled authorities that received allocations totaling $350 million in Recovery Act funds, and members of Congress have raised concerns about public housing authorities' ability to effectively administer Recovery Act funding. HUD developed a troubled public housing agency (PHA) Recovery Act strategy in which it assigned each troubled PHA a risk level of low, medium, or high. HUD has plans to provide technical assistance, monitoring, and oversight based on these risk levels. During the fiscal year, we reviewed the capacity of 19 authorities, noting that 11 had significant capacity issues. HUD's oversight of the $4 billion in capital funds is a challenge. By March 2010, the PHAs were required to obligate these funds, and they must spend the funds within the next 2 fiscal years, in addition to administering their normal capital fund programs.

The Recovery Act added $2 billion to the Neighborhood Stabilization Program that Congress created as part of the Housing and Economic Recovery Act of 2008, and recent legislation added another $1 billion. HUD administers the now nearly $7 billion program to redevelop abandoned and foreclosed-upon homes. The Recovery Act also added $3.5 billion to community planning and development programs for block grant activities and homelessness prevention. HUD must oversee the expenditure of these funds in the next 2 years. We looked at 28 grantees and subgrantees receiving Recovery Act funds and reported to HUD that 12 had the capacity to handle the increased funding, while 13 needed improvements and 3 lacked capacity.

The Department's Progress

The Recovery Act provided $13.6 billion for projects and programs administered by HUD. Given the Recovery Act's cross-cutting and aggressive scope and timeframe, the Secretary and OSPM view the Recovery Act as an opportunity to lay the groundwork for future transformation at HUD. The agency has already begun to put in place several groundbreaking accountability measures and initiatives.

Response to Capacity Concerns

As outlined in the HUD Recovery Act program plans published in May 2009 and revised in May 2010, HUD programs have hired additional staff in both headquarters and regional/field offices with necessary experience and skill sets to complete the work of the Recovery Act. Programs have also met the challenge of Recovery Act implementation by shifting internal workloads for operational efficiency, training internal staff on Recovery Act functions, and delaying other non-critical activities.

The OIG has issued reports on capacity reviews conducted on Recovery Act grantees. In cases where the report identifies concerns, the program has responded to the OIG with plans to address the concerns, and program staff members work with the recipients to address and resolve the identified concerns. Some, but not all programs have set-aside Recovery Act administrative funds for travel purposes to support monitoring, through which staff members travel on-site and work directly with grantees if necessary. It is also important to note that there has been a significant review of the Recovery Act activities at HUD, and specifically PIH, performed by GAO. GAO conducted 16 reviews and found substantial compliance with the Recovery Act provisions and also found that HUD programs were well controlled and reporting on a timely basis. HUD management believes that the capacity issues are not a universal concern.

In support of ensuring PHA capacity in the obligation and expenditure of Recovery Act funds, PIH implemented a standardized process for both the troubled and non-troubled PHAs that focused on comprehensive and substantive reviews for grant initiation activities, use of funds, environmental compliance, procurement, and grant performance. To date, 3,829 reviews have been completed for both formula and competitive awards. This includes 100 percent of initial formula grantees receiving a remote review, and on-site reviews for all 174 troubled agencies. In addition, all of the 376 competitive grants received remote reviews. As a result of this review process, PIH was able to identify potential issues early on and provide guidance and technical assistance to grantees.

Additionally, PIH worked closely with grantees to ensure transparency through a high level of recipient reporting. PIH has managed some of the highest levels of recipient reporting within the Department and across all Federal Agencies. Each reporting period, PIH has exceeded 95 percent reporting, maintaining over 99 percent of grantee reporting in the previous four reporting quarters

Monitoring of Expenditures and Intended Uses

HUD has established additional internal management controls to create a greater level of accountability for performance. The Recovery Act team prepares dashboard reports for distribution to the Secretary, Deputy Secretary, and senior leadership team that include financial performance measures and targets, core activities data (e.g., housing units rehabilitated, housing units developed, and people served by homelessness prevention assistance), and issues or risks. OSPM and the Senior Program Manager for Economic Recovery provide regular briefings to the Secretary and Deputy Secretary, with updates on progress based on performance metrics of obligation by HUD, obligation by grantees, disbursement, core activities funded (e.g., units rehabilitated, units developed, people served), and pressing policy concerns. Performance measure targets and milestones that are missed, or that are in jeopardy of being missed, will be accompanied by an explanation of the reasons why, including any issues affecting progress and the specific plan for their resolution or mitigation. The report also identifies specific grantees with performance issues and summarizes the actions being taken to address them.

In 2010, the Deputy Secretary completed a groundbreaking place-based reporting effort focused on tracking and managing disbursements by geographic region, which has served as a pilot for longer-term department-wide implementation beyond the Recovery Act. This place-based reporting included examination of expenditures by recipients, barriers to spending, and follow-up actions by Regional and Field Offices.

Finally, the Senior Program Manager for Economic Recovery continues to meet on a monthly basis with the OIG to discuss issues of priority concern, including ongoing and recently issued audits. In FY 2010, the Recovery Act program management team received a favorable audit report from the OIG on its Recovery Act recipient reporting processes, as described below. The Recovery Act program management team also reviews program-related and grantee-related audits regularly.

Recipient Reporting, Analysis, and Transparency

A recent OIG audit of Recovery Act recipient reporting found that the overall quality assurance process completed by the HUD Recovery Act team for recipient reporting has been successful. In particular, the OIG found that: “The Recovery Team’s accomplishments as of the March 31, 2010, reporting period are as follows: (1) developed policies and procedures for validating recipient reporting; (2) completed several rounds of validation checks of recipient data; (3) successfully assisted approximately 99 percent of the prime recipients (4,849 of 4,911) to meet report requirements; and (4) met with the OIG on a monthly basis to discuss Recovery Act activities." In the third calendar quarter of 2010, HUD recipients maintained a high percentage of reporting compliance, at 97 percent.

In addition to making quarterly reports into www.FederalReporting.gov, HUD Recovery Act recipients are also required to submit reports directly to the agency on core activities funded by the Recovery Act. The Department has identified a rigorous set of performance measures that quantify progress of each of the Recovery Act programs toward goals of: (1) promoting energy efficiency and creating green jobs, (2) unlocking the credit markets and supporting critical public projects, and (3) mitigating the effects of the economic crisis and preventing community decline. As reported by Recovery Act recipients in July 2010, since the inception of the Act, these funds have led to over half a million people being served through homelessness prevention assistance, nearly 3,000 homes being developed, and over 315,000 units of housing being renovated, many of which have improved energy efficiency. In the second quarter of calendar year 2010, HUD Recovery Act recipients reported over 26,000 jobs saved or created. HUD has also completed two quarters of analysis on where its dollars are performing geographically, relative to a variety of indicators including geography, income, race, and poverty level.

Consistent with OMB reporting requirements, HUD has posted weekly financial reports on www.hud.gov/recovery since March 1, 2009. Furthermore, the HUD Recovery Act website provides a range of information to ensure that transparency objectives are met, including place-based (e.g., state-based) updates on Recovery Act expenditure and core activities funded by Recovery Act programs. HUD also provides success stories regarding the impact of Recovery Act grants.

Challenge: Human capital management

For many years, one of the Department's major challenges has been to effectively manage its limited staff to accomplish its primary mission. HUD lacks a valid basis for assessing its human resource needs and allocating staff within program offices, as evidenced in OIG's September 2008 audit pertaining to HUD's management of human resources.

The current administration announced a "human capital transformation," noting that the 2008 Federal Human Capital Survey ranked HUD 24th out of the 30 large agencies in the "Best Places to Work in the Federal Government" report (HUD has since moved to last in the 2010 rankings). The Department contracted with the National Academy of Public Administration (NAPA) to consult on this problem. NAPA noted that HUD did not engage in any short- or long-term planning to determine staffing needs. It noted the absence of a clear workforce planning strategy, which is impeding the Department's efforts to address its workforce needs in a strategic, systematic manner.

NAPA recommended that the Department establish an intra-agency team of senior officials, including the Chief Financial Officer, Chief Human Capital Officer, and administrative/budget officials from major program offices, to assess the causes of its erratic resource management practices and develop a more timely and predictable staffing process. NAPA recommended that this team lay the groundwork for creating ongoing, agency wide workforce analysis and planning that is tied to HUD's strategic plan and enhances longer range capability to recruit and sustain a high quality workforce.

The Department's Progress

An additional study was conducted entitled "Health Check" in order to move from the NAPA report to an action plan. Some recommendations from the NAPA report and the "Health Check" study are already being implemented while others are being assessed.

The transformation of the Office of the Chief Human Capital Officer (OCHCO) resulted in elevation of performance management, recruitment, and planning efforts. Workforce and succession planning have been identified as critical, and a workforce succession planner has been recruited to lead this effort. The OCHCO is implementing a new Staffing and Classification system. This system will enhance workforce analysis while reducing the number of human resource systems currently being utilized. It will also provide new tools to streamline and enhance the recruitment, on boarding (the process of helping new employees become productive members of an organization), and retention of workforce. While implementation is being led by OCHCO; OCFO, OCIO, OSPM, and others have been involved with defining the needs and capabilities of the new system.

With the release of the "2010 Employee Viewpoint Survey (EVS)" (an annual survey of employees to assess employee satisfaction, as well as leadership and management practices that contribute to agency performance) results; OCHCO assigned its analysis and interpretation to the Office of Policy, Planning, and Training and established a Departmental EVS Task Team to assist with planning and implementing an action plan to improve agency performance in this area. Working in cooperation with OSPM and engaging the Office of Personnel Management (OPM) in EVS analysis and action planning workshops, the Department submitted a "2010 EVS Action Plan" to OPM and OMB on September 13, 2010, consisting of three key areas: performance management, learning and development, and strategic communication.

Additional EVS Task Teams have been established for each program office leading to the creation and implementation of program office action plans. Representatives of program office task teams are working together on developing these action plans as well as department-wide implementation measures. An executive level task team has been established to interpret the EVS results and determine actions while working with OCHCO to provide implementation assistance and accountability.

Immediate changes related to employee development and engagement can be seen in the approach to course development with task teams consisting of members from the planned audience. New program selection will include a diverse team of participants from across the Department. This includes occupations, grades, and other race and national origin demographics.

Looking Ahead to FY 2011 and Beyond

HUD is extremely committed and active in transforming the way it does business. Several actions are currently underway or planned for the future. Current actions include the re-establishment of the Human Capital Council, the creation of a Training Council, the development of a Strategic Communication Plan (led by the Office of Public Affairs, OCHCO, and OSPM), and the creation of Project Management Offices throughout HUD starting with the OCHCO.

The highest priority has been given to improved communication throughout the Department. Efforts include modifying the Supervisory training programs to include a communication course. Meetings between OCHCO and Public Affairs are on-going to developing a strategic communication plan as an essential part of the Secretary's Agenda. Town hall meetings are being scheduled and web sites are being redesigned to promote participation from all HUD employees through HUD's internal web site.

Challenge: Financial Management Systems

Since fiscal year 1991, OIG has annually reported on the lack of an integrated financial management system, including the need to enhance FHA's management controls over its portfolio of integrated insurance and financial systems. During the past several years, HUD has made progress by partially implementing new core financial systems at FHA and Ginnie Mae and addressing most of the previous weaknesses that OIG identified. These improvements enabled OIG to reclassify the weakness in financial management system requirements from a material weakness to a significant deficiency.

The contract to modernize HUD's financial management systems, the HUD Integrated Financial Management Improvement Project (HIFMIP), was awarded on September 23, 2010. The original scope of HIFMIP was to encompass all of HUD's financial systems, including those supporting FHA and Ginnie Mae. However, the inclusion of the FHA and Ginnie Mae portions has been put on hold as a result of review by the Office of Management and Budget. HIFMIP was launched in fiscal year 2003 and was to have begun implementation of HUD's core financial system in fiscal year 2006. With the recent award of the contract, HUD anticipates implementation of phase one of the project in time to have all of the fiscal year 2012 financial data within the new system. We continue to note the following weaknesses with HUD's financial management systems:

- HUD's ability to prepare financial statements and other financial information requires extensive compensating procedures.
- HUD has limited availability of information to assist management in effectively

managing operations on an ongoing basis.

FHA's business increased dramatically as a result of the mortgage crisis and now accounts for 30 percent of the market share. The shortcomings of the current information technology (IT) systems and the lack of systems capabilities and automation in critical areas of the business are challenging FHA's ability to respond to changes in the market and implement needed changes to its business processes. The recent changes in the economy and the housing market and explosive growth in FHA's single-family insurance program have exacerbated these issues and brought the need to move FHA IT modernization initiatives to the forefront. Critical maintenance had been deferred, and old technology and fragmented architecture are inefficient and expensive to maintain. In August 2009, FHA completed the IT Strategy and Improvement Plan, which identifies FHA's priorities for IT transformation. The plan identifies 25 solution initiatives to address specific FHA lines of business needs. Initiatives are prioritized with the top five being single-family related. The plan also calls for FHA to create a program management office to facilitate coordination and communication and track and report progress, provide support to managers, and support organizational change management activities. Its ultimate goal is to focus leadership effort and resources needed for a successful transformation initiative. HUD has since awarded four contracts under this initiative.

Another IT concern is the ability to replace the antiquated infrastructure on which HUD and FHA applications reside in a timely manner. Workloads have dramatically increased and are processing on systems that are 15 to 30 years old, resulting in performance, flexibility, and interface issues. The use of aging hardware and software can result in poor performance and high maintenance costs. If the IT infrastructure is not modernized, it will become increasingly difficult to maintain operations, make legislative system modifications, and develop or maintain required interfaces to other IT systems, leaving the system environment at risk.

During 2009, HUD unsuccessfully attempted to move certain applications off the antiquated Unisys mainframe onto a modern platform. Computer processing utilization reached the critical rate of 80-90 percent during 2009, which necessitated an upgrade in the processing power of the existing mainframe in May 2009. The upgrade brought the utilization rate down to 60-70 percent. HUD performed another upgrade in June 2010, bringing the utilization rate down further to 35-40 percent. During August 2010, HUD replaced the old Unisys mainframe with the latest model with newer technology. In addition, HUD replaced the antiquated tape drives that were attached to the old Unisys mainframe with virtual tape systems to increase performance.

We continue to report weaknesses in internal controls and security regarding HUD's general data processing operations and specific applications. The effect of these weaknesses is that HUD cannot be reasonably assured that system information will remain confidential, safeguarded, and available to those who need it without interruption.

As part of our annual IT security review mandated by the Federal Information Security Management Act, we found that HUD had not completed all requirements for systems containing personally identifiable information, including categorization and inventory of such systems. Also HUD had not implemented two factor authentications on all enterprise remote access solutions.

The Department's Progress

HUD has strategically planned for and delivered a modernized infrastructure that facilitates the provisioning of services and allows scalability and agility in meeting on-demand business requirements, improved quality of service, and increased cost efficiencies. HUD's data center environment represents the success of these efforts through the implemented upgrade to the antiquated Unisys platform that represented a significant barrier to FHA business expansion. With the delivery of the Unisys Dorado 780, capacity has been significantly expanded and maintenance costs lowered. Furthermore, this infrastructure enhancement was designed to anticipate future capacity requirements and was implemented in a timely manner to ensure enhanced performance availability to meet increased programmatic requirements.

As HUD moves forward with its mission and strategic goals, the oversight and management of the infrastructure will continue to implement strategies and procedures for timely, cost-effective acquisition, use, and reallocation of infrastructure resources to provide quality service to HUD. Future plans continue to focus on an agile enterprise that embraces industry best practices, IT mandates, and performance-based management, with significant milestones for the following:

- Implementing end-to-end processes, enterprise identity management, real-time transactions, and integrated systems;
- Continuing to eliminate costly proprietary systems;
- Easing access to data when-needed, where-needed; and
- Migrating rigid business processes to highly leveraged and flexible service oriented systems.

Progress towards these milestones will enable HUD to continue moving towards an agile high leverage/high speed organization.

Challenge: Public and assisted housing program administration

HUD provides housing assistance funds under various grant and subsidy programs to multifamily project owners (both nonprofit and for profit) and PHAs. These intermediaries, in turn, provide housing assistance to benefit primarily low-income households. The Office of Public and Indian Housing provides funding for rent subsidies through its public housing operating subsidies and tenant-based Section 8 rental assistance programs. These programs are administered by about 4,100 PHAs, which are to provide housing to low-income families or make assistance payments to private owners that lease their rental units to assisted families. In fiscal year 2010, the PHAs assisted 3.2 million low income households.

HUD has a challenge of ensuring that adequate funding is available to support the Housing Choice Voucher program. In fiscal year 2009, approximately 180 PHAs reported shortfalls in voucher funding. Several factors contributed to the shortfalls. First, the funding Congress provided to renew vouchers for calendar year 2009 was several hundred million dollars less than the amount for which agencies were eligible. Second, tenant incomes declined-most likely due to recent job losses caused by the recession-driving up voucher costs in many regions of the country and worsening the financial crunch. Third, the average cost of a voucher increased more than 5 percent in fiscal year 2009, despite weakening in most rental housing markets. Early in fiscal year 2010, Congress provided HUD $200 million in advance funding to assist PHAs experiencing shortfalls. In total, 182 PHAs received $77 million in additional funding. As a proactive measure, HUD established the shortfall prevention team to ensure that assisted families would not be terminated from the Housing Choice Voucher program. HUD provided technical assistance to these PHAs in identifying cost-saving measures to maximize the funding utilization and prevent termination of families receiving rental assistance.

The Office of Housing administers a variety of assisted housing programs including parts of the Section 8 program and the Sections 202 and 811 programs. The subsidies provided through these programs are called "project-based" subsidies because they are tied to particular properties. Therefore, tenants who move from such properties may lose their rental assistance. For this fiscal year, HUD requested $8 billion for Section 8 project-based rental assistance.

HUD has made improvements in the area of erroneous payments, but more are needed. To continue its efforts in the reduction, it needs to enhance its disclosures of administrative errors made by intermediaries in performance reports, improve its methodology documentation, and enhance oversight of controls over monitoring of improper payments.

HUD has increased its focus on the electronic monitoring of its intermediaries. In the past, HUD has performed comprehensive onsite monitoring reviews to increase detection of intermediaries' lack of compliance or errors in complying with the program regulations. We noted that HUD did not prepare its required fiscal year 2010 management plan. As a result, at the headquarters level, HUD did not develop formal plans to establish performance and onsite comprehensive monitoring review goals. The lack of management plans hampered efforts to track and provide oversight of the field offices that are responsible for developing risk assessments and determining which PHAs to review.

The Department's Progress

Program Transformation

HUD has proposed legislative program simplification for its rental assistance programs. This legislation will initiate a multi-year effort to streamline its rental assistance programs via the Transforming Rental Assistance (TRA) initiative – a multi-year, $350 million proposal. TRA will modernize HUD's rental assistance programs so that they are easier for families to access, less costly to operate, and easier to administer at the local level. [More information on this initiative can be found online at www.hud.gov/tra.]

Ensuring Adequate Funding

PIH has taken a number of steps in support of ensuring adequate funding for the Housing Choice Voucher program. During FY 2010, PIH initiated a joint effort with PD&R to determine reasonable methods for accurately capturing TBRA funding changes; these efforts will result in PIH being able to apply the most appropriate method in putting forth future budget requests which more closely predict true program need, including but not limited to, calculation of the Annual Adjustment Factor.

A substantial aspect of providing technical support to PHAs facing shortfalls in 2009 and 2010 focused on the need for determining amounts and sources of funds available to support program costs; in particular, the PHAs' Net Restricted Assets (NRA) became a focus of PIH activity. During 2010, PIH initiated an NRA reconciliation process on its top 500 funded PHAs for the funding years of 2005 through 2009. In addition, the Voucher Management System (PHAs' reporting mechanism for HCV leasing and expenses) was updated to include new fields which now collect data on PHA-reported NRA levels, Unrestricted Net Assets (UNA), cash resources, and vouchers issued but not under lease. These new fields provide much-needed information to the PHAs and PIH staff in assessing not only current status of agencies but also in providing technical assistance on utilization of funds more broadly. A Shortfall Prevention Team was also established to stabilize HCV funding utilization activity. Taken together, these accomplishments facilitate a more stabilized and balanced approach to voucher utilization with an emphasis on assisting PHAs to estimate approaching funding and leasing outcomes.

Improper Payments

HUD has been a federal government leader in reducing improper payments having reduced improper payments from an estimated $3.43 billion in FY 2000 to $925 million in FY 2009 (a 73 percent reduction). HUD has achieved this success principally through the use of the Enterprise Income Verification (EIV) System. The EIV System makes integrated income data available from one source for PHAs and multifamily property owners to improve income verification during initial intake and income reexaminations. This system continues to facilitate HUD's progress with improper payment reduction. For FY 2009, rental assistance improper payments decreased 3 percent. Use of the Enterprise Income Verification (EIV) system is now mandatory for PHAs and owners and management agents (O/As). Housing continues to make improvements in the area of reducing erroneous payments by providing O/As with current and updated guidance on program requirements. In July 2010, Housing issued a revised and expanded Notice on EIV and will soon issue Change 4 to *Handbook 4350.3 REV-1, Occupancy Requirements of Subsidized Multifamily Housing Programs*, that will include an entire chapter devoted to EIV. PIH issued notices in January, March, and May 2010, to provide PHAs with guidance on reducing improper payments on behalf of individuals who have not complied with the mandatory social security number disclosure requirement and deceased program beneficiaries, as well as mandated and effective use of HUD's EIV system to reduce administrative and improper payment errors.

The Office of Housing also continues to monitor program administrators in regard to improper payments through its annual on-site management and occupancy reviews (MORs) for the majority of its Multifamily portfolio. In addition, contract administrators have been reporting, through an interim error tracking log, any MOR findings resulting in over- and/or under-payment of subsidy. The reporting of this information began in early FY 2009 and is used for the purposes of targeting training at those areas where most of the errors are occurring. It is also used to inform OMB that not only is the Department continuing to monitor its program administrators, but it is also increasing its efforts to ensure that subsidy payments are being calculated correctly.

Enhanced EIV System Functionality

During FY 2010, PIH implemented the Debts Owed to PHAs and Terminations module within the EIV system. PHAs are now required to report outstanding debts owed and/or program non-compliance of former program beneficiaries to alert other PHAs of this adverse information to prevent future payments from being made on behalf of individuals who have not fulfilled their financial responsibilities under a PIH rental housing assistance program and/or individuals who have demonstrated their inability to comply with program requirements. PIH's EIV Debts Owed to PHAs and Termination module will help to prevent improper payments before they occur. It should be noted that this initiative was initiated and implemented prior to the issuance of the November 2009, Executive Order 13520 – Reducing Improper Payments and the June 18, 2010, Presidential Memorandum - Enhancing Payment Accuracy Through a "Do Not Pay List." PIH continues to aggressively and proactively develop and implement initiatives to ensure that limited Federal dollars serve as many eligible families and increase accessibility of PIH rental housing assistance programs by its intended program beneficiaries.

Improper Payments Team

During the second quarter of FY 2010, PIH created the Improper Payments Team, which is devised of program analysts who carry out ongoing monitoring, improper payment recovery, training and technical assistance activities, along with identifying and eliminating the highest improper payments within PIH rental housing assistance programs. This team's efforts directed to the reduction of improper payments are designed to protect access to PIH rental assistance program by their intended program beneficiaries. As a result of the Improper Payments Team's efforts in FY 2010, PIH reported the following success as of Fiscal Year End 2010:

1. Increased Public and Indian Housing Information Center (PIC) reporting rate to 95 percent from 84 percent;
2. Increased EIV System access rate to 98 percent from 96 percent;
3. Decreased improper payments on behalf of deceased program beneficiaries by 56 percent;
4. Decreased the number of egregious tenant under reporting of income cases by 56 percent; and
5. Decreased the number of program beneficiaries with invalid SSNs by 69 percent.

Monitoring

During this transition year (the new FY 2010 – 2015 Strategic Plan was published on May 5, 2010), rental assistance programs operated off of the previous year's management plan goals. In FY 2010, all PHAs were monitored through a remote review. PIH also conducted 810 on-site reviews for all troubled PHAs and a sample of non-troubled PHAs. The remote reviews focused on four main components: grant initiation, environmental compliance, procurement, and grant administration. The follow-up/on-site review checklist follows-up on the same four components examined in the remote review and also includes a review of the contract administration of the procurements related to the use of Recovery Act funds.

In an effort to not only ensure that the program funds are expended properly, but to also identify improper financial decisions and practices, PIH has partnered with the Real Estate Assessment Center Quality Assurance Division to conduct forensic audits of high risk PHAs. This proactive approach will allow PIH to identify poor financial management practices and provide the necessary technical assistance so that PHAs will be practicing accepted and effective financial management.

PIH also conducted 395 quality assurance/quality control (QA/QC) reviews of all troubled PHAs and a random sample of 223 of the non-troubled PHAs. QA/QC reviews consisted of a headquarters review of all necessary documents used by the field office in completing the remote and onsite reviews. In addition, PIH conducted quick-look reviews of all Recovery Act formula grant obligating documents for PHAs that were less than 90 percent obligated by February 26, 2010.

Housing continues to make monitoring of its Multifamily portfolio a top priority to ensure that program administrators are in compliance with HUD's regulations and program requirements. The majority of Multifamily's properties receive an on-site management and occupancy review

(MOR) annually. In FY 2010, 17,741 MORs were conducted, which represents an increase of 131 over the 17,610 MORs that were conducted in FY 2009.

Challenge: Administering programs directed toward victims of natural disasters

In efforts to reduce the physical, human, and economic toll of future disasters, HUD is encouraging States to undertake activities and long-term strategies that focus on reducing damages from future natural disasters. To accomplish this goal, HUD has awarded $312 million in Disaster Recovery Enhancement Fund (DREF) monies to support the long-term recovery following dozens of natural disasters in 2008. Since these States previously received Community Development Block Grant funds for disasters, 13 States were eligible to receive the DREF funds to target disaster mitigation.

Over the past several years, HUD has allocated more than $29.4 billion to various States through its Community Development Block Grant program. These active disaster grants nationwide have $23 billion in obligations and $18 billion in disbursements. Regarding the $19.6 billion in funds provided to Gulf Coast States for Hurricane Katrina, $15 billion or 76.3 percent of the funds had been disbursed through September 30, 2010.

As Gulf Coast communities work to recover from Hurricane Katrina, other communities throughout the United States are feeling the effects of natural disasters as well. In addition to the DREF funds, Congress appropriated $100 million to assist the communities affected by the disasters that occurred in the spring of 2010. Supplemental appropriations were enacted on July 29, 2010, to provide additional funds for disaster relief; long-term recovery; and restoration of infrastructure, housing, and economic revitalization in areas affected by severe storms and flooding from March through May 2010 for which the President declared a major disaster.

As a result of its continuing role in addressing natural disasters, HUD faces significant management challenges as identified by our 2010 audit work. In a recent audit, we reported that more than $18.7 million in questioned costs was incurred because one State did not follow Federal and State requirements. The State was not ready to handle the many differences in contracting with disaster funds and was thereby ill-prepared to meet the challenges created by the natural disaster. In efforts to reduce the physical, human, and economic toll of future disasters, HUD has a unique challenge of encouraging States to undertake long-term strategies that focus on mitigating the impact of future natural disasters. The challenge for HUD is to facilitate disaster preparedness by improving the long-term recovery process and ensuring that a comprehensive community development plan is in place.

Further, HUD will have continuing challenges in preventing duplication of benefits from the many Federal disaster programs, along with balancing timeliness of fund distribution versus the need for accountability and controls in disaster programs.

The Department's Progress

Long-Term Strategies to Mitigate the Impact of Future Natural Disasters

To administer the Disaster Recovery Enhancement Fund (DREF), the Department identified four specific activities that could qualify a grantee for additional funds:

- Development and adoption of a forward-thinking land-use plan that will guide use of long-term recovery efforts and subsequent land-use decisions throughout the community and reduces existing or future development in disaster-risk areas;
- Floodplain or critical fire or seismic hazard area buyouts programs under an optional relocation plan that includes incentives so that families and private sector employers move out of areas at severe risk for a future disaster;
- Individual Mitigation Measures (IMM) to improve residential properties and make them less prone to damage. If such activities are incorporated into the grantee's rehabilitation or new construction programs generally, the cost increment attributed to IMM will be the amount considered for the additional allocation, not the total construction amount budget; and
- Implementation of modern disaster resistant building codes, including, but not limited to, training on new standards and code enforcement.

To receive a DREF award, eligible activities had to be budgeted by the grantee (either in its hard-copy Action Plan, or in its Disaster Recovery Grant Reporting (DRGR) system Action Plan) by June 30, 2010. In addition, each grantee also had to demonstrate that it still had unmet disaster recovery needs.

Duplication of benefits

Funds awarded via the DREF are subject to all of the requirements imposed by the appropriation law and the above referenced *Federal Register* notices. In particular, 74 FR 7244 (published February 13, 2009) states:

> 10. *Duplication of benefits*. In general, 42 U.S.C. 5155 (section 312 of the Robert T. Stafford Disaster Assistance and Emergency Relief Act, as amended) prohibits any person, business concern, or other entity from receiving financial assistance with respect to any part of a loss resulting from a major disaster as to which he has received financial assistance under any other program or from insurance or any other source. The Second 2008 Act stipulates that funds may not be used for activities reimbursable by or for which funds have been made available by FEMA or by the Army Corps of Engineers.

Code of Federal Regulation 74 FR 7244 also requires each grantee's Action Plan to describe, "Monitoring standards and procedures that are sufficient to ensure program requirements, including non-duplication of benefits, are met and that provide for continual quality assurance, investigation, and internal audit functions with responsible staff reporting independently to the Governor of the state or, at a minimum, to the chief officer of the governing body of any designated administering entity…" Furthermore, each grantee must outline, "a description of the steps [it] will take to avoid or mitigate occurrences of fraud, abuse, and mismanagement, especially with respect to accounting, procurement, and accountability, with a description of how [it] will provide for increasing the capacity for implementation and compliance of local government grant recipients, subrecipients, subgrantees, contractors, and any other entity responsible for administering activities…"

The Department will continue monitoring grants to ensure all funds, including the DREF awards, meet the above requirements. Additionally, the Department will publish a notice in the Federal register in early 2011 to clarify the requirements of the duplication of benefits guidance and issue tailored technical assistance to grantees that are launching new disaster recovery-funded programs.

Timely of Distribution of Funds

HUD implemented several internal controls to ensure that disaster recovery funds are accurately disbursed in a timely manner. Specifically, HUD placed additional controls on the Line of Credit Control System (LOCCS), including restricting all unbudgeted balances, providing for line-item budgets instead of an undifferentiated grant, and including warning flags for draws over $5 million and over $25 million. The flags can only be removed, allowing drawdown completion, after a CPD manager reviews and accepts accompanying documentation. Additionally, HUD's Disaster Recovery Grant Reporting (DRGR) system was integrated with LOCCS on January 5, 2009.

Technical Assistance

Grantees receiving disaster funds face unprecedented rebuilding tasks and are often not equipped to address them with their standard operating procedures. To that end, grantees receiving disaster recovery funds are required to identify their proposed recovery activities in an Action Plan. HUD reviews and accepts the Action Plan, but also informs the grantee about technical assistance, training, and other resources that may be available to assist in the establishment of specific disaster recovery activities. Moreover, HUD will monitor DREF funds as part of the disaster recovery risk analysis and monitoring actions.

Neighborhood Stabilization Program (NSP)

NSP was authorized by the Housing and Economic Recovery Act of 2008 (HERA), which provided $3.92 billion in funding for the initial NSP effort (NSP1). NSP is intended to assist the nation's communities in addressing the effects of abandoned and foreclosed properties, a problem that has increased significantly as a result of the recent economic recession and

problems in the housing market. HERA established an 18 month use period for the NSP1 funds which, for most grantees, expired in the 45 days preceding September 30, 2010. Through a significant technical assistance effort, CPD was able to assist NSP1 grantees in obligating 99.7 percent of NSP1 funds by grantee deadlines and disbursing approximately 42 percent of funds in that same period. This level of achievement was attributable to an exceptional level of dedication on the part of grantee and CPD staff as well as CPD's implementation approach to NSP1.

In FY 2010, CPD also completed the competition for $2 billion in NSP2 funding provided by the Recovery Act. On January 14, 2010, Secretary Donovan announced 56 awards under NSP2 and CPD has been working with this unique collection of local government, state government, and non-profit grantees to launch these programs. The $50 million in NSP2 funds, reserved for the NSP technical assistance effort, made a substantial impact on NSP1 performance and is also being use to aid NSP2 grantees in advancing their efforts. It should be noted that the OIG thoroughly reviewed the NSP2 competition process and issued an audit report with no findings or concerns. As a result, many processes and controls instituted in the NSP2 competition are being incorporated in other competitions throughout the Department.

In July, 2010, Congress has appropriated an additional $1 billion for NSP3, and CPD allocated those funds to 283 grantees on September 8, 2010. HUD has already issued guidance to those grantees on NSP3 program requirements and will support NSP3 with an additional $20 million in technical assistance funds.

Summary of Financial Statement Audit and Management Assurances

For FY 2010, no material internal control weaknesses were identified for the Department. The following tables provide a summary of financial audit findings with regard to audit opinion and management assurances. The first table is a summary of the results of the independent audit of HUD's consolidated financial statements, as well as information reported by HUD's auditors in connection with the FY 2010 Financial Statement Audit.

Summary of Financial Statement Audit

Audit Opinion	Unqualified				
Restatement	No				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
None /Name of material Weakness	0	0	0	0	0
Total Material Weaknesses	0	0	0	0	0

The following table is a summary of management assurances related to the effectiveness of internal control over HUD's financial reporting and operations, and its conformance with financial management system requirements under Sections 2 and 4, respectively, of the Federal Managers' Financial Integrity Act (FMFIA). The last portion of this table is a summary of HUD's compliance with the Federal Financial Management Improvement Act (FFMIA).

Summary of Management Assurances

Effectiveness of Internal Control over Financial Reporting (FMFIA § 2)						
Statement of Assurance	Unqualified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
None/Name of material Weakness	0	0	0	0	0	0
Total Material Weaknesses	0	0	0	0	0	0
Effectiveness of Internal Control over Operations (FMFIA § 2)						
Statement of Assurance	Unqualified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
None/Name of material Weakness	0	0	0	0	0	0
Total Material Weaknesses	0	0	0	0	0	0
Conformance with Financial Management System Requirements (FMFIA § 4)						
Statement of Assurance	Systems conform to financial management system requirements.					
Non-Conformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
None/name of non-conformance	0	0	0	0	0	0
Total non-conformances	0	0	0	0	0	0

Compliance with Federal Financial Management Improvement Act (FFMIA)		
	Agency	Auditor
Overall Substantial Compliance	Yes	No
1. System Requirements	Yes*	
2. Accounting Standards	Yes	
3. USSGL at Transaction Level	Yes	

*Represents Management's opinion.

Improper Payments Information Act Reporting Details

The Requirements

Under the Improper Payments Information Act (IPIA) of 2002 (Public Law 107-300) and OMB implementing guidance in Appendix C of Circular No. A-123, agencies are to assess all programs and activities they administer and identify those that may be susceptible to significant improper payments. Where the risk of improper payments is assessed as potentially significant, agencies are required to estimate the annual amount of improper payments and report the estimates in their annual report (Performance and Accountability Report or AFR) to OMB, along with plans to reduce improper payments. The statute defines a "significant" level of improper payments as annual improper payments exceeding a $10 million dollar threshold.

An "improper payment" is any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements. Incorrect amounts consist of overpayments and underpayments (including inappropriate denials of payment or service). Improper payments include:

- Any payment that was made to an ineligible recipient or for an ineligible service;
- Duplicate payments;
- Payments for services not received;
- Payments that do not account for applicable discounts; and
- Payments for which there is insufficient or lack of documentation to determine whether it was proper.

In addition to identifying substantive errors that might warrant repayment, HUD's statistical sampling of support for payments also identified "process" errors that increase the risk of substantive payment errors, which are included in HUD's improper payment estimate.

HUD's Commitment

The Secretary designated the Chief Financial Officer as the lead official for directing and overseeing HUD actions to address improper payment issues and bring HUD into compliance with requirements of the IPIA and OMB implementing guidance. The OCFO implemented the IPIA requirements and continues to address improper payment issues. HUD's plans, goals, and results for identifying and reducing improper payments are tracked and reported in the annual AFR. Additionally, managers are held accountable for achieving improper payment reduction targets via goals established for their program.

On November 20, 2009, the President signed Executive Order (EO) 13520: Reducing Improper Payments. The EO will reduce improper payments by boosting transparency, holding agencies accountable for reducing improper payments, examining the creation of incentives for states and other entities to reduce improper payments, and increasing penalties for contractors who fail to timely disclose improper payments. HUD is in compliance with all of the requirements under the EO and the OMB implementing guidance in OMB Circular No. A-123, Part III of Appendix C. As such, HUD has established and reported supplemental measures for reducing improper payments in its designated high-priority program (Rental Housing Assistance Program). HUD has also submitted an Accountable Official Annual Report to the Inspector General detailing HUD's methodology for identifying and measuring improper payments in the high priority program, plans for meeting reduction targets, and plans for ensuring that initiatives undertaken pursuant to EO do not unduly burden program access and participation by eligible beneficiaries.

HUD's Process

The HUD process for complying with the IPIA consists of four steps:

1) Conduct an initial survey of all program and administrative activities for potential indicators of significant improper payments. The first annual assessment was conducted in FY 2004, based on the $52.9 billion in payments made during FY 2003 in support of over 200 programs and administrative activities.
2) Perform a detailed risk assessment of program activities identified in the first step with annual expenditures in excess of $40 million[1]. HUD identified 10 activities, representing 57 percent of all payments, as potentially "at risk" of a significant improper payment level during this initial assessment.
3) Independent reviewers test a statistical sample of payments in program activities determined to be susceptible to a significant improper payment level. Statistical sampling and analysis found that only 5 of the 10 activities actually had a significant improper payment problem.
4) Establish, execute, and monitor corrective action plans for reducing improper payments in the programs identified as at-risk.

Summary of HUD Results to Date

Prior to enactment of the IPIA, OMB requested agency input on improper payments in select programs, including the CDBG Entitlement and State and Small Cities Programs. These CDBG programs were identified through statistical sampling in HUD's initial annual risk assessments to be at low risk of improper payments and to not warrant reporting. OMB subsequently revised its

[1] The OCFO determined that programs with expenditures of less than $40 million would not be included in the risk assessment. OMB Circular A-123, Appendix C, Part 1, defines "significant erroneous payments" as annual erroneous payments in the program exceeding both 2.5 percent of program payments and $10 million. Based on the OCFO's analysis of the programs and their funds control activities, OCFO concluded that no program was susceptible to having an error rate in excess of 25 percent (i.e., 25 percent of $40 million = $10 million).

guidance to clarify that agencies should continue to report on programs until they could document a minimum of two consecutive years in which improper payments are less than $10 million annually, after which they could submit to OMB a request for relief from annual reporting.

HUD's two-year analysis determined that the CDBG Programs were below the annual $10 million threshold for required reporting, and on March 14, 2007, OMB approved HUD's request for relief from annual improper payment reporting for those programs. HUD will continue to conduct an annual assessment of the CDBG programs and provide results annually to OMB by March 31.

Corrective actions were developed and completed for two of the five remaining areas identified as having a significant level of improper payments, the Single Family Acquired Asset Management System and the Public Housing Capital Fund. These two areas were subsequently removed from the improper payments reporting requirement, leaving three high-risk program areas:

- Public Housing,
- Section 8 Housing Choice Vouchers (HCVs) and Moderate Rehabilitation, and
- Owner-administered Project-based Assistance Programs (Section 8, Section 202, Section 811).

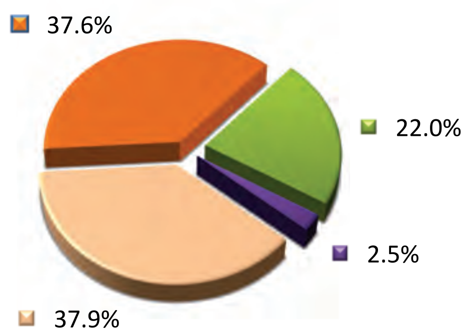
These programs are collectively referred to as HUD's rental housing assistance programs. HUD has reduced the combined baseline gross improper rental housing assistance payment estimates of $3.43 billion[2] to $925 million in Fiscal Year 2009, a reduction of 73 percent.

Results of Annual Risk Assessment Update and Continued Payment Testing

The FY 2010 risk assessment update was based on payment and other relevant activity that occurred during FY 2009. An inventory of over 200 distinct program and administrative payment activities was identified from all of HUD's financial management systems in FY 2009, with total payments of $79.2 billion. The payment universe consisted of the following general distribution:

[2] This figure combines the FY 2000 baseline estimate of $3.22 billion for two types of improper payments (program administrator and tenant income reporting errors), with the FY 2005 baseline estimate of $214 million, based on FY 2003 expenditures for the third type of improper payment (billing errors).

HUD's $79.2 Billion Payment Universe



HUD's risk assessment update in FY 2010 did not identify any new activities as being at-risk of a significant improper payment level. Programs that previously tested below the improper payment threshold established by the IPIA were removed from HUD's at-risk inventory and are not subject to re-testing unless there is significant change in the nature of the activity, HUD's internal control structure, or operating environment.

Rental Housing Assistance Programs

HUD's Rental Housing Assistance Programs had previously been assessed as being at high risk of significant improper payment levels – and continue to be reported as such – with corresponding error measurement methodologies, corrective action plans, and error reduction goals described below. These programs constituted over $30 billion, or 38 percent, of HUD's total payments in FY 2009.

Prior to enactment of the IPIA, HUD had already established the Rental Housing Integrity Improvement Project in FY 2001 to reduce an acknowledged improper payment problem in its rental assistance programs. This project is directed by the responsible HUD program offices, with oversight by the OCFO and statistical sampling[3] support from the Office of Policy Development and Research. HUD's Rental Housing Assistance Programs are administered by over 26,000 PHAs and multifamily housing owners or management agents on HUD's behalf. In

[3] HUD's methodology for statistical sampling in FY 2009 was to select 600 projects that were considered to be nationally representative of the 26,000 PHAs and multifamily housing owners or management agents that administer rental housing assistance on HUD's behalf. Projects were selected with probabilities proportional to size. Projects having a size exceeding the sampling interval were selected for eight, twelve, or more households in the project and were counted as more than one project for purposes of determining the sampling size. Projects were allocated approximately equally among the three assisted program types, and four households were randomly selected from each project, for a total of 2,404 households with representation from among the three program areas. Some large projects were selected multiple times, so that the study sample included 540 distinct projects in 56 geographic areas across the United States and Puerto Rico. The sample is designed to obtain a 95 percent likelihood that estimated aggregate national rent errors for all programs are within two percentage points of the true population rent calculation error, assuming an error of ten percent of the total rents (based on OMB criteria). Previous studies determined that a tenant sample size of 2,400 will yield an acceptable precision for estimates of the total average error.

general, beneficiaries pay 30 percent of their adjusted income as rent, and HUD payments cover the remainder of the rental cost (or the operating cost, in the case of public housing).

There are three major components of potential errors and improper payments in these complex programs:

1) Program administrator error – the program administrator's failure to properly apply income exclusions and deductions and correctly determine income, rent, and subsidy levels;
2) Tenant income reporting error – the tenant beneficiary's failure to properly disclose all income sources and amounts upon which subsidies are determined; and
3) Billing error – errors in the billing and payment of subsidies due between HUD and third party program administrators and/or housing providers.

From FY 2000 through FY 2009, HUD reduced the gross improper payments for the first two of these three categories of error from $3.22 billion to $868 million, a reduction of 73 percent. A baseline measurement for the third component, billing error, was completed in FY 2005, based on FY 2003 expenditures, and was estimated to be $214 million. The FY 2008 billing error was estimated to be $59 million. In FY 2010, a billing study, based on FY 2009 expenditures was conducted for the Owner-administered Project-based Assistance Programs. The billing error was $57 million. The following chart provides a summary for all three error components for FY 2009 as compared to FY 2008 and the baseline year (FY 2000). Actual results are not presented for FY 2010 because HUD reports on prior year data (i.e. FY 2010 studies are conducted on FY 2009 data).

IMPROPER RENTAL ASSISTANCE PAYMENTS

Administration/ Error Type	2009 Subsidy Over-Payments*	2009 Subsidy Under-Payments*	2009 Net Erroneous Payments*	2009 Gross Erroneous Payments*	2008 Gross Erroneous Payments*	2000 Gross Erroneous Payments*
Public Housing						
Administrator Error	-	-	-	-	-	$602,557
Income Reporting Error	-	-	-	-	-	$294,000
Billing Error	-	-	-	-	-	Not available
Subtotal:	**-**	**-**	**-**	**-**	**-**	**$896,557**
Section 8 Voucher						
Administrator Error	$268,791	$171,497	$97,294	$440,288	$400,248	$1,096,535
Income Reporting Error	$121,477	-	$121,477	$121,477	$232,557	$418,000
Billing Error**	-	-	-	-	-	Not available
Subtotal:	**$390,268**	**$171,497**	**$218,771**	**$561,765**	**$632,805**	**$1,514,535**
Total PHA Administered						
Administrator Error	$268,791	$171,497	$97,294	$440,288	$400,248	$1,699,092
Income Reporting Error	$121,477	-	$121,477	$121,477	$232,557	$712,000
Billing Error	-	-	-	-	-	Not available
PHA Subtotal:	**$390,268**	**$171,497**	**$218,771**	**$561,765**	**$632,805**	**$2,411,092**
Total Project Based/Owner Administered						
Administrator Error	$122,667	$86,788	$35,880	$209,455	$191,724	$539,160
Income Reporting Error	$96,326	-	$96,326	$96,326	$138,143	$266,000
Billing Error	$21,000	$36,000	($15,000)	$57,000	** $59,000	Not available
Project Based Subtotal:	**$239,993**	**$122,788**	**$117,206**	**$362,781**	**$388,867**	**$805,160**
Total Improper Payments						
Administrator Error	$391,458	$258,285	$133,174	$649,743	$591,972	$2,238,252
Income Reporting Error	$217,803	-	$217,803	$217,803	$370,700	$978,000
Billing Error	$21,000	$36,000	($15,000)	$57,000	** $59,000	Not available
GRAND Total:	**$630,261**	**$294,285**	**$335,977**	**$924,546**	**$1,021,672**	**$3,216,252**
TOTAL PROGRAM PAYMENTS				**$30,015,109**	**$29,035,284**	**$18,800,000**
IMPROPER PAYMENT RATE				**3.1%**	**3.5%**	**17.1%**

** Dollars in Thousands*

*** Billing error estimate is derived from the baseline established in FY 2005 for Owner Administrators.*

Percent Reductions in Improper Payments

Error Type	Baseline Estimates*	FY 2009 Estimates*	Percent Reduction
Administrator Error	** $2.238	$0.650	71%
Income Reporting Error	** $0.978	$0.218	78%
Billing Error	** $0.214	$0.057	73%
Total	**$3.430**	**$0.925**	**73%**

** Dollars in Billions*

*** Administrator and Income Reporting Error Estimates are from FY 2000; the Billing Error Estimate is from FY 2005.*

Corrective Actions Taken to Reduce Improper Payments

The overall reduction in improper payments for HUD's three major types of Rental Housing Assistance Programs over the past eight years has been primarily attributed to HUD's efforts to work with its housing industry partners through enhanced program guidance, training, oversight, and enforcement. Collectively, these efforts have had a positive impact on the program administrators' ability to reduce their errors in the calculation of income, rent, and subsidies. Although the administrator error increased in FY 2009, the findings were on par with the findings from FY 2004 through FY 2008, within the statistical margin of error, and do not represent statistically significant differences. The Department also has found a direct correlation in the reduction of improper payments to the number of monitoring reviews of PHAs and the number of management and occupancy reviews at multifamily housing properties. HUD also uses the Enterprise Income Verification (EIV) system to reduce the level of improper payments. The EIV system makes integrated income data available from one source for PHAs and multifamily property owners to improve income verification during income reexaminations. Increased availability and use of the EIV system by PHAs, owners, management agents, and contract administrators for HUD's Rental Assistance programs also have a direct correlation to the reduction of improper payments associated with income reporting errors. Effective January 31, 2010, PHAs, owners, management agents, and contract administrators were mandated to use HUD's EIV system to reduce administrative and improper payment errors.

More recently, program structure changes have reduced the opportunities for improper payments in two of HUD's Rental Housing Assistance Programs. In HUD's Public Housing program, significant program structure changes were implemented to improve the efficient use of funding in the Public Housing Operating Fund. These structure changes effectively eliminated all three previously reported types of improper payments due to Administrator, Income Reporting, and Billing errors for that program. It should be noted that PHAs could still make Administrator errors, and tenants could still not report or under-report their income. However, in the new structure, the effect of these errors would be borne by the PHA and HUD's subsidy payment would remain unchanged. Nonetheless, HUD retains program oversight responsibility to ensure the proper performance and benefits of the program, and will continue to focus on effective measures to reduce performance errors by PHAs. These changes were implemented in the second quarter of FY 2007 (i.e., error reductions affecting HUD were realized for three-quarters of the year). In addition, the establishment of a budget based funding methodology was implemented for the HCV Program in FY 2005 to eliminate the opportunity for billing errors in that program.

HUD's Improper Payment Reduction Forecast

HUD will continue to take aggressive steps to address the causes of improper rental housing assistance payments to ensure that the right benefits go to the right people. Based on the above results for the three types of rental housing assistance errors, as well as plans to address known causes and levels of improper payments, HUD provides the statistical results for FY 2009 and the outlook for improper payment percentages on a combined program basis from FY 2010 – FY 2012, as follows:

Rental Assistance Improper Payment Reduction Outlook
FY 2010 – FY 2012
(Dollars shown in billions)

Activity	FY 2008 Payments	FY 2008 IP	FY 2008 IP% Goal/Actual	FY 2009 Payments	FY 2009 IP	FY 2009 IP% Goal/Actual	FY 2010 IP% Goal	FY 2011 IP% Goal	FY 2012 IP% Goal
Rental Assistance	$29.035	$1.022	3.4/3.5	$30.015	$0.925	3.3/3.1	3.0	3.0	3.0
Estimated Payments							$33,000	$33,000	$33,000

Note: *The annual Improper Payments calculation is based on prior year data. Accordingly, the FY 2010, FY 2011, and FY 2012 results will be reported in the FY 2011, FY 2012, and FY 2013 PARs respectively.*

During FY 2008, the improper payment rate remained steady at 3.5 percent (as in FY 2007), thus missing HUD's FY 2008 goal by one-tenth of one percent. An increase in income reporting errors caused HUD to miss its goal. The improper payment rate for FY 2009 was 3.1 percent, thus exceeding HUD's FY 2009 goal of 3.3 percent. Actions taken to reduce improper payments included full implementation and the mandatory use of the EIV system, the efficient use of funding in the Public Housing Operating Fund, the establishment of a budget based funding methodology in the HCV Program, and providing technical assistance and training to minimize errors. To continue to meet future goals, PHAs and Multifamily Housing owners must continue to be diligent in the mandatory use of the EIV system to further reduce income reporting errors. HUD's corrective action plans will include addressing this issue during the Management and Occupancy Reviews and Rental Integrity Monitoring Reviews. Therefore, HUD believes that the goals for FY 2010 and beyond are realistic and achievable. In addition, program simplification, via revised legislation, could lend to further significant improper payment reductions for HUD's Rental Housing Assistance Programs.

Further information on HUD's efforts to reduce improper rental housing assistance payments is provided in the Annual Performance Plan to be issued in FY 2011.

Recovery Auditing Activity

Under the requirements of the IPIA, recovery audits of each program and activity of an agency that expends more than $1 million or more annually shall be conducted if performing such audits would be cost-effective. The IPIA significantly increases agency payment recapture efforts by expanding the scope of recovery audits to all programs and activities (e.g., grants, loans, benefit, and contract outlays), and lowering the threshold for conducting payment recapture audits from $500 million in annual outlays to $1 million in annual outlays. HUD, with contractor assistance, previously performed a detailed recovery auditing review. The review disclosed two contracts with potential recoveries. However, HUD's Contracting Officer and Government Technical Representative validated these payments as proper.

The current internal controls present in HUD's contract payment and contract close-out process are adequate to reduce the risks of overpayments. HUD continues to focus on strengthening its funds control processes, increasing training classes for Government Technical Representatives and Government Technical Monitors, and further improving the contract close-out process. Therefore, HUD concluded that a recovery auditing program would not be beneficial and is not warranted. However, as required by the IPIA, HUD will submit a payment recapture audit plan to OMB in November 2010, and will re-assess the cost effectiveness of recovery auditing. The plan will demonstrate how HUD is prioritizing payment recapture activities to maximize recoveries, and describe how HUD is leveraging and exploring new processes and/or technologies in these efforts.

HUD Assisted Housing Units by Program

	2007	2008	2009	2010 a/
Section 8 Low Income Rental Assistance Program:				
Tenant-based assistance: b/	1,988,365	2,050,285	2,104,490	2,116,718
Project-based assistance c/	1,183,884	1,196,747	1,198,519	1,202,660
Sub-total	3,172,249	3,247,032	3,303,009	3,319,378
Public Housing Program d/	1,155,377	1,140,294	1,128,891	1,124,009
Sub-total	4,327,626	4,387,326	4,431,900	4,443,387
Housing for the Elderly Sec. 202	116,297	123,653	132,305	134,235
Housing for the Disabled Sec. 811	24,464	26,438	27,257	28,000
Tenant-based 811 b/	13,995	14,189	14,099	13,980
Sub-total	154,756	164,280	173,661	176,215
Other Assistance Programs				
Homeownership Assistance Program (Section 235)	4,758	4,302	3,557	3,912
Rental Housing Assistance Program (Section 236)	204,389	190,463	178,659	171,756
Rent Supplement	10,555	9,843	9,293	9,082
Sub-total	219,702	204,608	191,509	184,750
Total, Public and Assisted Housing	4,702,084	4,756,214	4,797,070	4,804,352
HOME Tenant-Based Assistance	18,172	25,381	18,763	10,132
HOME Rental Units Completed	28,039	23,170	19,098	12,936
HOME Homebuyer Units Completed	34,985	26,790	23,711	18,325
HOME Existing Homeowners Completed	11,221	10,847	9,737	5,656
Sub-total	92,417	86,188	71,309	47,049
CDBG Households (homeownership assistance) e/	6,919	4,521	2,441	4,845
CDBG Households (owner-occupied rehabilitation) e/	117,830	121,158	103,926	84,734
Self-Help Homeownership Opportunity Program New Homebuyers	1,887	1,927	1,809	889
Housing Opportunities for Person With AIDS Households f/	24,895	20,803	23,862	20,576
Indian Housing Block Grant Households g/	6,212	6,486	7,757	4,324
Rural Housing & Economic Development e/	784	1,210	1,789	544
Native Hawaiian Homeland Block Grant Households	23	65	95	49
ADDI (American Dream Downpayment Initiative)	6,094	4,209	2,162	410
Sub-total	164,644	160,379	143,841	116,371
Total of CDBG, HOME, Self-Help Homeownership Opportunity Program, Housing Opportunities for Persons With AIDS, Indian Housing Block Grant, Rural, Title VI Native Hawaiian Homeland Block Grant, Households Served	257,061	246,567	215,150	163,420
GRAND TOTAL h/	**4,959,145**	**5,002,781**	**5,012,220**	**4,967,772**

a/ Fiscal years 2007-2009 represent 4th quarter data (year-to-date through September 30th), unless otherwise noted. Fiscal year 2010 data reflects 3rd quarter data (year-to-date through June 30th), unless otherwise noted.

b/ Figures represent HUD's estimate of funded units. Unit Months Leased (UML) count is drawn from Voucher Management System (VMS) and include Veterans Affairs Supportive Housing Program (VASH). Moving to Work Program (MTW) units under Annual Contributions Contracts (ACC) are assumed to be at 100 percent utilization and are drawn from HUD's Central Accounting and Program System (HUDCAPS). Annual data is through June 30th (year-to-date through the third quarter) of each year. This method of data collection has been the same logic employed for Priority Goal/HUDSTAT reporting.

c/ FY 2007 data is not available for Community Planning and Development units.

d/ The calculation used for the Performance Accountability Report (FY 2007-2009) and Annual Financial Report (FY 2010) is based on Eligible Unit Months (EUMs), which is the basic unit for the Operating Fund formula. This figure represents units that were eligible for operating subsidy during Calendar Year 2010. In addition, most formula elements are paid based on Per Unit Month (PUM) in accordance with the formula regulation.

e/ Provides data through September 30th (year-to-date through the 4th quarter) rather than through June 30th (year-to-date through the 3rd quarter), which reflects actual data collection schedule.

f/ Housing Opportunities for Persons with HIV/AIDS (HOPWA) unit figures updated to include only permanent housing units.

g/ As of October 19, 2010, pre FY 2010 figures have been revised from those reported in the Performance and Accountability Report due to subsequent adjustments in the database.

h/ Totals reflect the same program as in previous years and are not identical to the programs included on Performance.gov and HUD's Priority Performance goals for Rental Housing.

NA-Not Available

Compliance Status of Financial Management Systems

As of September 30, 2010

Total Systems: 42 Total Compliant Systems: 39 Total Non-compliant Systems: 3

COMPLIANT SYSTEMS – 39

Office of Chief Financial Officer (14)

A21	Loan Accounting System (LAS)
A39	HUD Consolidated Financial Statement System (HCFSS)
A67	Line of Credit Control System (LOCCS)
A75	HUD Central Accounting and Program System (HUDCAPS) **
A75I	Personnel Services Cost Reporting Subsystem (PSCRS) ***
A75R	Financial Data Mart (FDM) ***
A91	Consolidated Cost and FTE Files (CCFF)
A96	Program Accounting System (PAS)
D08	Bond Payment System (BONDMAPPER)
D61	EZBudget Budget Formulation System (EZB)
D65A	Section 8 Budget Outlay Support System (BOSS)
D91A	Total Estimation and Allocation Mechanism–Resource Estimation and Allocation Process (TEAM-REAP)
H18	Integrated Automated Travel System (IATS)
P221	Electronic Travel System Interface (eTravel)
A100	HUD Integrated Core Financial System (ICFS) *

Office of Chief Human Capital Officer (1)

P162	HUD Integrated Human Resources Training System (HIHRTS)

Office of Chief Procurement Officer

P273	HUD Integrated Acquisition Management System (HIAMS) *

Community Planning and Development (3)

C04	Integrated Disbursement & Information System (IDIS)
C38	Electronic Special Needs Assistance Program (eSNAPS)
C08A	Disaster Recovery Grant Reporting System (DRGR)

Public and Indian Housing (2)

P113	Inventory Management System (IMS)
P232	Subsidy and Grants Info System (SAGIS)

Office of Housing (18)

A43	Single Family Insurance System (SFIS)
A43C	Single Family Insurance Claims Subsystem (CLAIMS)
A80B	Single Family Premium Collection System-Periodic (SFPCS-P)
A80D	Distributive Shares and Refund Subsystem (DSRS)
A80H	Single Family Mortgage Asset Recovery Technology System (SMART)
A80N	Single Family Mortgage Notes (SFMN)
A80R	Single Family Premium Collection System-Upfront (SFPCS-U)
A80S	Single Family Acquired Asset Management System (SAMS)
D64A	Single Family Housing Enterprise Data Warehouse (SFHEDW)
F12	Home Equity Conversion Mortgages (HECM)
F17	Computerized Home Underwriting Management System (CHUMS)
F42D	Single Family Default Monitoring Subsystem (SFDMS)****
F51	Institution Master File (IMF)
F71	Debt Collection & Assets Management System – Title 1 Notes (DCAMS)
F72	Title I Insurance and Claims (TIIS)
F87	Tenant Rental Assistance Certification System (TRACS)
P013	FHA Subsidiary Ledger (FHA-SL)**
P057	Multifamily Delinquency and Default Reporting System (MDDR) ****

Ginnie Mae (1)

P237	Ginnie Mae Financial & Accounting System (GFAS)**

NON COMPLIANT SYSTEMS – 3

Office of Chief Procurement Officer (3)

A35	HUD Procurement System (HPS)
P035	Small Purchase System (SPS)
D67A	Facilities Integrated Resources Management System (FIRMS)

* In development; these systems are not included in the total inventory count of 42.

** Core Financial System

*** These systems were not reported as a Financial Management System before FY 2010. However, they are not newly implemented systems.

**** During FY 2009, the Office of Housing reported these systems as non financial. However, they need to be validated by independent reviews.