

CHAPTER 2. PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

2-1 Background

A. The Chief Financial Officers Act of 1990 (CFO Act) requires that the agency Chief Financial Officer (CFO) develop and maintain an integrated agency accounting and financial management system, including financial reporting and internal controls, which:

1. Complies with applicable accounting principles, standards, and requirements, and internal control standards;
2. Complies with such policies and requirements as may be prescribed by the Director of OMB;
3. Complies with any other requirements applicable to such systems; and
4. Provides for –
 - a. Complete, reliable, consistent, and timely information which is prepared on a uniform basis and which is responsive to the financial information needs of agency management;
 - b. The development and reporting of cost information;
 - c. The integration of accounting and budget information; and
 - d. The systematic measurement of performance.

To this end, the Department of Housing and Urban Development’s (HUD) Office of the Chief Financial Officer (OCFO) has implemented an integrated accounting system utilizing a federal shared service provider (FSSP). Activities in the HUD financial reporting process are distributed amongst four different entities: HUD Proper, Federal Housing Administration (FHA), Government National Mortgage Association (GNMA), and Treasury’s Bureau of the Fiscal Services, Administrative Resource Center (ARC).

1. **HUD Proper.** Major program activities include the Office of Community Planning and Development, the Office of Housing (non-FHA), Fair Housing and Equal Opportunity, the Office of Lead Hazard Control and Healthy Homes, the Office of Policy Development and Research and the Office of Public and Indian Housing.
2. **FHA.** This HUD component administers active mortgage insurance programs which are designed to make mortgage financing more accessible to the home-buying public and thereby to develop affordable housing.

3. **GNMA.** This HUD component guarantees the timely payment of principal and interest on Mortgage-Backed Securities issued by approved private mortgage institutions and backed by pools of mortgages insured or guaranteed by FHA, the Department of Agriculture, Veteran Affairs, and the HUD Office of Public and Indian Housing.
4. **ARC.** This is current FSSP responsible for providing a range of services to include:
 - system access to
 - WebTA,
 - PRISM,
 - Concur,
 - Citibank,
 - Internet Payment Platform,
 - Discoverer,
 - OBIEE, and
 - OneStream;
 - full service financial transactional processing and system configuration and operations, of HUD's financial system of record, Oracle Federal Financials;
 - generation and submission of regulatory reporting and other financial management services on behalf of HUD; and
 - processing of interfaces from feeder system into Oracle Federal Financials.

ARC and OCFO/Accounting Financial Reporting Division share the accounting and financial reporting responsibilities in collaboration with the accounting staff from FHA and GNMA. OCFO/Accounting is ultimately responsible for the financial reporting data.

- B. **The Government Management Reform Act of 1994 (GMRA)** requires that federal agencies prepare audited consolidated financial statements for all activities. A consolidated financial statement presents the results of operations and the financial position of an entity and its component units as if the group were a single enterprise. The rationale behind preparing a consolidated statement for the Department is that it disregards the distinction between separate offices, thus preventing the overstatement of transactions and balances which could be caused by the Department doing business within itself.

2-2 Policy and Authority

A. Consolidated Financial Statements. In keeping with applicable laws, consolidated financial statements are to be prepared in accordance with generally accepted accounting principles (GAAP) for Federal entities, as established by the Federal Accounting Standards Advisory Board (FASAB) and interpreted by the Office of Management and Budget (OMB).

B. Applicable Laws:

1. Federal Managers' Financial Integrity Act of 1982;
2. CFO Act of 1990;
3. GMRA; and
4. Government Corporation Control Act.

C. Applicable OMB guidance:

1. Office of Management and Budget (OMB) Circular No. A-11, Preparation, Submission, and Execution of the Budget
2. OMB Circular No. A-136, Financial Reporting Requirements
3. OMB Circular No. A-123, Management's Responsibility for Internal Control and Enterprise Risk Management
4. OMB Bulletin No. 17-03, Audit Requirements for Federal Financial Statements
5. Treasury Financial Manual (TFM), Volume 1, Chapter 4700 Agency Reporting Requirements for Financial Report of the United States Government
6. Federal Accounting Standards and Advisory Board Pronouncements
7. Instructional Workbook for Preparing the "Treasury Report on Receivables and Debt Collection Activities, A Supplement to the TFM, Volume 1, Part 2, Chapter 4100.

2-3 Scope

- A.** This policy handbook chapter applies to parties involved in the HUD Department-wide consolidated financial reporting process, including all participating HUD programs including HUD's OCFO, FHA, and GNMA.
- B.** This policy handbook chapter identifies roles and responsibilities in the preparation of HUD component-level and HUD consolidated FS and Notes as fulfilled by ARC and HUD's Reporting areas. Applicable roles and responsibilities attributed ARC as HUD's FSSP are supported and agreed upon under ARC's service agreement with HUD. References to ARC in this policy handbook chapter are for informational purposes only.

2-4 Effective Date. This policy handbook chapter is effective as of June 30, 2019.

2-5 Responsibilities and Procedures. The Office of the CFO (OCFO) is responsible for oversight and management of all functions related to the production of consolidated financial statements. Procedures established by the OCFO for collection, recording, maintenance, and transmission of financial information stored in systems not directly under OCFO control are binding on those offices in HUD that control such systems. Within the OCFO, the Office of the Assistant CFO (OACFO) for Accounting is responsible for developing and implementing processes for obtaining, validating, and reporting financial data pertaining to the consolidated financial statements. ARC is the FSSP for HUD for all financial data and for financial reporting.

Within OCFO/Accounting, FRD oversees financial accounting and reporting for HUD Proper programs consisting of approximately 100 Main Account Files (MAF) that are comprised of general funds, trust funds, revolving funds and other fund types. In addition, FRD is responsible for the reviewing, validating, and certifying of the HUD Proper stand-alone, and HUD consolidated FS and Notes. *(For more details see OCFO Accounting's "Financial Reporting SOP")*

FHA and GNMA are HUD components but manage their respective accounting operations and financial systems independently from the HUD OCFO. Each entity is responsible for processing their accounting transactions, preparing financial statements and reports, including the GTAS bulk file submission to Treasury. *(For more details see FHA's SOP "FY 2018 Financial Analysis and Reporting Process Narrative" and GNMA's SOP "FASAB Financial Reporting")*

Detailed procedures for the completion of the processes described in this chapter will be maintained by HUD OCFO Accounting and applicable component entities as separate standard operation procedures (SOPs) documents. Update will be made as appropriate when changes to law, guidance, service agreement, and internal processes occur. The following sections provide an overview of the processes and responsibilities applicable to HUD's consolidated financial statements.

A. General Process Flow

1. ARC loads HUD Proper data from Oracle into OneStream. OneStream validates the imported file source, attributes, and validation check rules. ARC also performs quality assurance checks on the financial data loaded into OneStream *(For more details see OCFO Accounting's "Financial Reporting SOP" Section 4.2.1.1)*
2. ARC loads the preliminary Governmentwide Treasury Account Symbol (GTAS) file with the Department of the Treasury.
3. HUD reviews and approves ARC's proposed Oracle journal entries to clear GTAS failed validation and edits, if applicable.
4. ARC completes their supervisory certifications of the HUD Proper MAF Level financial statements in OneStream and loads the final GTAS file. ARC notifies

HUD OCFO/ Accounting FRD that it can begin its review of HUD Proper's GTAS data in the Treasury system and the MAF Level FS review in OneStream.

5. HUD reviews and validates the documents provided by ARC and other external documents to certify HUD Proper GTAS and approve MAF Level FS in OneStream.
6. Once HUD completes its review and validation processes, HUD's FRD Accountants certify GTAS in the Treasury system. At year end, the OCFO Accounting FRD Director or designee must certify HUD Proper's period 12 GTAS in the Treasury system per regulatory guidance.
7. FHA and GNMA have their own reporting process and reporting system respectively. For detailed information on FHA's stand-alone reporting process, refer to FHA's SOP entitled "FY 2018 Financial Analysis and Reporting Process Narrative". For detailed information on GNMA's stand-alone reporting process, refer to GNMA's SOP entitled "FASAB Financial Reporting". FHA and GNMA's standalone statements are used solely for HUD consolidation purposes.
8. After the certification of FHA and GNMA's GTAS files, FHA and GNMA prepares and reviews their FS and Notes using a template provided by ARC.
9. ARC requests the certified FHA and GNMA GTAS files and SF-133s from the BFS, General Ledger and Advisory Branch. Upon receipt, the ARC loads the FHA GTAS file and GNMA GTAS file in OneStream.
10. ARC enters adjustments that are prepared and provided by FHA and GNMA into OneStream for consolidation purposes. *(For more details see OCFO Accounting's "Financial Reporting SOP" Section 4.2.1.6)*
11. Once all the data is uploaded into OneStream and validated by ARC. ARC generates the HUD Proper, FHA and GNMA stand-alone FS and Notes in OneStream. ARC works with the components and FRD to resolve any identified discrepancies. *(For more details see OCFO Accounting's "Financial Reporting SOP" Section 4.2.1.5 and 4.2.1.6)*
12. Each component review and certifies their respective FS and Notes in the OneStream module. *(For more details see OCFO Accounting's "Financial Reporting SOP" Section 4.2.1.6)*
13. After the HUD Proper, FHA, and GNMA stand-alone FS and Notes are reviewed and certified, the Intra-HUD eliminations are generated for review by OCFO Accounting-FRD and posted by ARC in OneStream. *(For more details see OCFO Accounting's "Financial Reporting SOP" Section 4.2.1.7 and 4.2.1.8)*
14. ARC generates and reviews the OneStream HUD Consolidated Comparative FS and Notes. *(For more details see OCFO Accounting's "Financial Reporting SOP" Section 4.2.1.8)*

15. OCFO Accounting-FRD reviews, validates, and certifies the OneStream HUD Consolidated FS and Notes. Certification in OneStream is at the HUDFRD level. *(For more details see OCFO Accounting's "Financial Reporting SOP" Section 4.2.1.8)*
16. DACFOA/ACFO reviews and certifies the OneStream HUD Consolidated FS and Notes at the ACFOA level. *(For more details see OCFO Accounting's "Financial Reporting SOP" Section 4.2.1.8)*
17. DCFO/CFO reviews and certifies the OneStream HUD Consolidated FS and Notes at the HUDCFO level. *(For more details see OCFO Accounting's "Financial Reporting SOP" Section 4.2.1.8)*

B. Eliminations

1. Intragovernmental Transactions

Intragovernmental transactions are regulated through the Treasury Financial Manual (TFM) I, Part 2, Chapter 4700, *Agency Reporting Requirements for the Financial Report of the United States Government*.

- In accordance with the TFM regarding intragovernmental transactions, each component entity is required to identify transactions that accrue to other Federal entities (intragovernmental transactions) and that will be eliminated during preparation of the *Financial Report of the United States*.
- In accordance with the TFM, any material differences between trading partners concerning the amounts of intragovernmental transactions must be reconciled and resolved. If an agency is unsuccessful in coming to an agreement with a trading partner, then the difference(s) will be resolved through a dispute resolution process involving Treasury's Bureau of the Fiscal Service (formerly FMS).

AMAD, FWAC, and ARC retains the records of all worksheets for the consolidation process, including applicable trial balances and crosswalks from component entity and SSP submissions, to support the validity of Intragovernmental eliminations and accurate financial reporting and to ensure compliance with Federal accounting standards.

As needed, a separate HUD instruction from the OCFO Accounting will be provided to HUD component entities to specify application of the TFM guidance.

2. Intra-HUD Transactions

- Transactions that occur between or within program offices (intra-HUD transactions; e.g. transactions between FHA and GNMA, or between an office's Working Capital Fund and the appropriated fund) must be eliminated in the Department's financial statements to properly report the financial

position and results of operations of the Department. The proper recording and reconciliation of intra-HUD transactions ensures that offices record the proper classification and amount for these transactions, and that the elimination entries for the Department's financial statements are complete and accurate.

- Each component entity of HUD is required to identify transactions that involve and are between HUD component entities (referred to as intra-agency transactions). Intra-HUD transactions are to be included in the Trial Balances submitted with the component entity's templates, even though these transactions will be eliminated during preparation of the HUD consolidated statements.
 - Eliminations are performed related to the Working Capital Fund (WCF) and amounts to be applied to WCF expenses from various appropriations accounts. The elimination posted in HUD's financial statements is based on the liquidation of advances posted in the WCF.
3. HUD eliminations involving FHA and/or GNMA:
- Eliminations are required when FHA approves a claim filed by GNMA, but the claim has not been disbursed. The lifecycle of these eliminations is as follows.
 - The claims filed by GNMA occur when the loss mitigation process has been completed and the loans are deemed non-curable.
 - Once FHA approves a claim, FHA establishes an intra-agency payable (to GNMA), and GNMA establishes an intra-agency receivable (from FHA).
 - The amount of outstanding claims is provided to the FRD by both of these HUD component entities on a quarterly basis.
 - The respective balances are eliminated in HUD's consolidated statements.
4. FRD and ARC retain the records of all worksheets for the consolidation process, including applicable trial balances and crosswalks from component entity and SSP submissions, to support the validity of Intra HUD eliminations and accurate financial reporting and to ensure compliance with Federal accounting standards.

C. Identification of Non-Eliminating Adjustments

1. Adjustment relating to the valuation of Departmental assets and liabilities.
- The assets associated with GNMA's FHA insured portfolio are valued at 100 percent of Unpaid Principal Balance (UPB), which is the value to GNMA.
 - At the consolidated Department level, the value of GNMA's assets is the estimated net recoverable amount for the Department. The allowance for these assets is included in FHA's liability for loan guaranty (LLG) (claim disbursement plus recovery at asset disposition).
 - The corresponding balances are reclassified based on a Journal Entry recorded through ARC and approved by FRD

- The amount of FHA's LLG attributable to GNMA will also be reduced by the calculated allowance amount.
 - The formula for the calculation of these amounts will be based on cohort data supplied by GNMA and corresponding claim rates and loss rates supplied by FHA.
 - All worksheets supporting this reclassification are to be retained by all HUD Components and ARC.
2. Adjustments must be made for the annual cost allocation performed to determine FHA's costs attributable to salaries and expenses. FHA does not receive an appropriation for salaries and expenses; instead the FHA amounts are appropriated directly to HUD. In order to recognize these costs in FHA's Statement of Net Cost, the costs are transferred from HUD and are recorded via Journal Entry(s) based on amounts computed below.
- An interim Journal Entry is provided to ARC by FHA to allocate Salaries and Expenses (S&E) based on estimates calculated by FHA on a quarterly basis.
 - The basis for the estimated amounts to be transferred is to be retained as a supporting document by FHA, FRD, and ARC.
 - The actual cost allocation study is performed by the Office of the ACFO-Accounting-FRD at fiscal year-end based on FTE data, accounting data and actual expenses reported in the Department's administrative funds. The cost allocation study factors the amount of S&E costs and other indirect costs that should be reflected in FHA's stand-alone financial statements.
3. Accruals
- Grant Accruals: see Chapter 3 of this handbook (Accounting Policies Handbook).
 - Purchase Card Accruals: see Chapter 4 of this handbook (Accounting Policies Handbook).
 - Goods and Services Received but not Invoiced: see Chapter 5 of this handbook (Accounting Policies Handbook).
4. Amortization and Depreciation
- Internal Use Software Amortization: see Chapter 6 of this handbook (Accounting Policies Handbook).

- General Property, Plant, and Equipment Depreciation: see Chapter 7 of this handbook (Accounting Policies Handbook).

D. Changes in Financial Reporting

1. If any component entity of HUD anticipates making a significant change in the manner of preparing or the reporting structure of its financial statements, that entity is required to notify the FRD prior to making any change. This includes the implementation of new federal accounting or reporting standards.
 - HUD component entities must submit any new posting models at the transactional level including a summary of impact on the component's chart of accounts to the FRD. HUD component entities will provide the appropriate trial balances and appropriate crosswalks to the component's financial statement used by FRD in the consolidation process.
 - The FRD will evaluate each submission to ensure Federal accounting standards are met and if necessary, will notify the HUD component entity's management of any apparent deficiency. The FRD will work with the HUD component entity and implement any necessary corrections to ensure HUD's compliance with federal accounting standards. FRD will work with ARC regarding any changes that impact accounting and financial reporting practices.
2. To facilitate the dialogue between OCFO and HUD component entities, FRD will initiate and hold regular meetings with financial officers of HUD component entities and ARC. The financial reporting processes identified in the handbook chapter will be reviewed annually.

2-6 Internal Controls

HUD applies the OMB A-123 guidance throughout its accounting and financial reporting processes. For more details please refer to HUD's Financial Reporting: Standard Operating Procedures in Section 4: Financial Statement Preparation and Validations.

2-7 Monitoring

For more details on financial reporting monitoring processes please refer to HUD's Financial Reporting: Standard Operating Procedures in Section 4: Financial Statement Preparation and Validations.