

## Message from the Deputy Chief Financial Officer

December 16, 2013

### Introduction

In this fiscal year, the Office of the Chief Financial Officer (OCFO) focused as a key stakeholder on a major Departmental initiative headed by the Deputy Secretary, the “New Core Project.” With an aim of replacing the Department’s aging financial systems, HUD has started a transition from legacy systems that cannot provide financial information in the scale and breadth necessary for the effective management of HUD’s programs and operations. In an environment of constrained resources, the Department can no longer continue to support inefficient systems that carry a risk of failure and need time-consuming maintenance. This multi-year effort will comprise a major contribution to Goal 5 of HUD’s Strategic Plan: *Transform the Way HUD Does Business*. In addition, the project will establish a path toward resolving internal control weaknesses that have been cited in recent years by the Office of Inspector General on HUD’s financial systems.



### Future Direction of HUD’s Financial Systems

In these efforts, HUD followed directives of the Office of Management and Budget (OMB) aimed at improving Federal financial systems, particularly the OMB Shared Services Strategy of May 2, 2012, and OMB Memorandum M-13-08 of March 25, 2013, *Improving Financial Systems Through Shared Services*. At the conclusion of an alternatives analysis conducted in the selection of a replacement core accounting system, HUD decided to partner on the “New Core Project” with an experienced Federal Shared Service Provider, the Administrative Resources Center (ARC) of the U.S. Department of Treasury’s Bureau of Fiscal Service. HUD’s partnership with the ARC on the development of a new core financial management system will remove a risk of failure in the current financial systems and reduce implementation risks in a highly important course of action being taken to modernize the Department’s reporting processes.

### Current Year Audit

In the audit of the current fiscal year, the Department received a qualified opinion on its FY 2013 financial statements from HUD’s Office of Inspector General (OIG). In addition, an original, unqualified opinion dated November 15, 2012 by the OIG on the Department’s FY 2012 financial statements has been replaced with a qualified opinion. The OIG based the qualification of the FY 2013 and FY 2012 financial statements on determining the following HUD practices to be not in accordance with generally accepted accounting principles: (1) Improper budgetary accounting in two programs, and (2) The lack of accounting for cash management in one program.

The OIG identified four material weaknesses. The first two material weaknesses relate to the items included in the discussion above on the OIG’s basis for the qualified opinion. The remaining two material weaknesses identified by the OIG concern weaknesses in the Department’s financial management systems and in HUD’s financial statement preparation and reporting process. In addition,

the Department recognized an operational material weakness in its Strategic Management of Human Capital Operations and a material weakness in the Department's non-compliance with the Federal Information Security Management Act (FISMA). Further, the OIG report notes eleven significant deficiencies, one of which the Department has resolved, and five instances in which HUD has not complied with certain provisions of laws and regulations.

HUD takes these material weaknesses, significant deficiencies, and instances of non-compliance with laws and regulation very seriously. The Department is taking aggressive actions aimed at correcting these issues and strengthening the Department's internal controls. The following items highlight several significant actions that the Department has taken in this fiscal year:

- Began the implementation of a new core financial system with the U.S. Department of Treasury.
- Restated the Department's FY 2012 financial statements.
- Developed a draft plan to eliminate the use of the FIFO accounting method.
- Developed procedures and adjusted accounting records with an aim of correcting weaknesses in the cash management process in PIH's Housing Choice Voucher program.

For a full discussion of HUD's FY 2013 accomplishments and planned actions in remediation efforts on all of these issues, please refer to the extensive material provided in the Management Assurances and the Summary of Financial Statement Audit subsections of this report.

### **Key Accomplishments**

The skilled and dedicated financial professionals in OCFO have again delivered significant financial management achievements during the year which include the following:

- Received, for the seventh consecutive year, the Certificate of Excellence in Accountability Reporting from the Association of Government Accountants (AGA) for the preparation of HUD's FY 2012 Agency Financial Report (AFR).
- Awarded by AGA, also for the Department's FY 2012 AFR, a Special "Best in Class" Recognition Award for Best Presentation of a Financial Management Systems Framework.
- Managed with fewer leadership positions in OCFO in a year marked by increasing retirements, funding limitations from sequestration, and complications from preparations for a government shutdown.
- Coordinated HUD's participation in key OMB initiatives:
  - Met OMB's target on reduced administrative spending in compliance with Executive Order 13576 which established the *Campaign to Cut Waste*.
  - Acted as a principal member of the government-wide Council on Financial Assistance Reform (COFAR), seeking excellence in grants management.
  - Reduced majority of HUD payments to small businesses and contractors from 30 days to 15 days.
  - Implemented HUD's use of the Do Not Pay portal to review eligibility of recipients to receive Federal funds.

## HUD FY 2013 Agency Financial Report

### Section 2

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- Led the Department's effort in completing the discovery process and the Inter-Agency Agreement with the ARC for the "New Core Project", while continuing to sustain legacy systems to meet reporting and funding deadlines.
- Improved the Budget process.

In a fiscal year which was made much more challenging by sequestration and government shutdown preparations, I want to again call attention to the talents of the financial and accounting personnel at HUD, the FHA, Ginnie Mae, and in the Office of Inspector General. These valuable employees continue to make vital contributions in supporting the accomplishment of HUD's key mission in these difficult economic and budgetary times. I credit all of these individuals for the above successes and thank each of them for their hard work and dedication.



David P. Sidari