Agency Financial Report

Fiscal Year 2018

About this Report

The United States Department of Housing and Urban Development (HUD) has chosen to produce an Agency Financial Report (AFR) and an Annual Performance Report (APR). This will include HUD's Fiscal Year (FY) 2018 APR as part of its Congressional Budget Justification and post it on HUD's website at www.hud.gov by February 2019.

The Fiscal Year 2018 Agency Financial Report is Available on the Web at:
www.hud.gov/sites/dfiles/CFO/documents/afr2018.pdf

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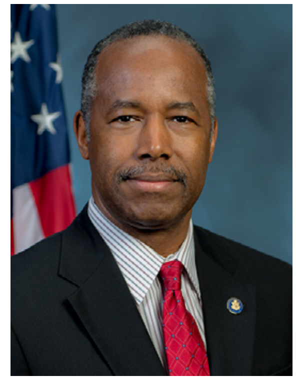
Message from the Secretary

Message from the Secretary

November 15, 2018



I am pleased to present the Fiscal Year (FY) 2018 Agency Financial Report for the U.S. Department of Housing and Urban Development (HUD). This report features our financial and performance highlights over the FY ending September 30, 2018.

Our mission at HUD *is to create strong, sustainable, inclusive communities and quality affordable homes for all.* We fulfill this mission by administering more than 200 housing programs.

In FY 2018, the Department took on numerous complex challenges and projects that have yielded real benefits for the American people. Some of them include:

- The 2018 hurricane season has been extremely active, bringing destructive storms to the Southeastern United States and the Caribbean. HUD has played a major role, dispensing and overseeing an unprecedented amount of Community Development Block Grant-Disaster Recovery (CDBG-DR) funding. HUD has successfully executed signing agreements with all the affected areas paving the way to speed billions of recovery dollars needed to restore damaged and destroyed homes, businesses and infrastructure.
- Recently, HUD reached a milestone of converting 100,000 public housing units through the Rental Assistance Demonstration program (RAD), which has generated close to $6 billion in construction investment. The success of this program is critical given the $25.6 billion-dollar backlog of public housing capital improvements.
- HUD established the Agency-wide Integrity Task Force that has identified six areas for process improvement: Finance Transformation, IT Modernization, Acquisition, Risk Assessment, Grant Modernization, and Human Resources (HR.) Processing. Detailed workplans have been prepared for each process improvement with target timelines.
- Government National Mortgage Association (Ginnie Mae) is strengthening risk management of its issuer base, particularly the risks posed by nonbanks. Ginnie Mae is also enhancing its technology platform to improve reliability and improve the issuer experience and is focusing on speeding innovation to meet market needs.

While HUD takes great pride in our accomplishments this year, we believe there are opportunities for improvement. We worked closely with the Office of Inspector General (OIG) to gain its perspective about our most significant management and performance challenges.

FY 2018 and prior year audits identified five material internal control weaknesses: 1) Weak Internal Controls Over Financial Reporting; 2) HUD Accounting Did Not Always Comply with GAAP; 3) Material Asset Balances Related to Non-Pooled Loans Were Not Auditable and Related Allowance for Loan Loss Account Balances Remained Unreliable; 4) HUD's Financial Management System Weaknesses Continued in 2018; and 5) Weaknesses Continued in FHA's Modeling Processes.

HUD is committed to ensuring transparency and accountability of the funds the public and Congress entrust to us. I can commit to providing reasonable assurance that the number of internal weaknesses identified in FY 2018 will be lower in FY 2019. The team we have put in place is committed to addressing these challenges, including delivering quality services and benefits and exercising sound fiscal management.

HUD is proud of the tremendous work we carried out in FY 2018 on behalf of our fellow Americans. We will continue our focus on improving the programs we utilize to house millions of American families.

Sincerely,

Ben Carson

Secretary

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Section 1: **Management's Discussion and Analysis**

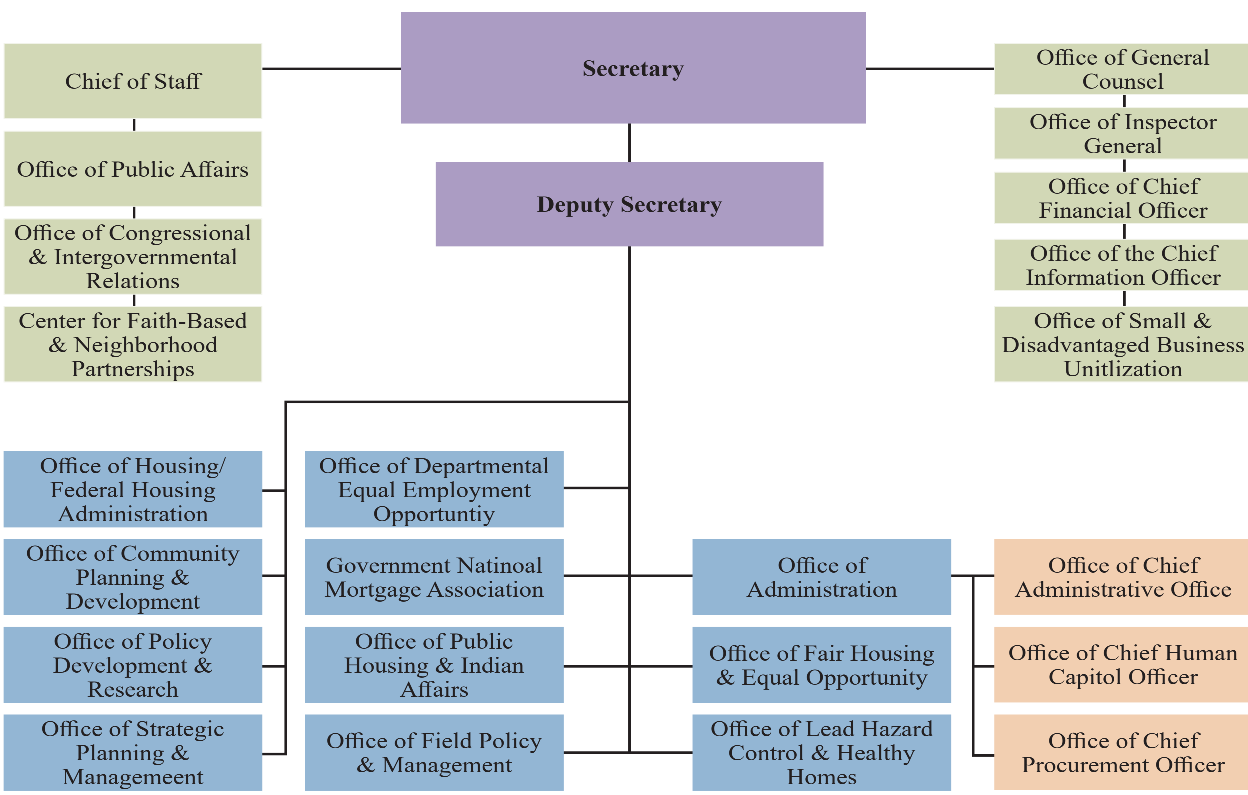
Mission, Organization, and Major Program Activities

HUD's Mission

HUD's mission is to create strong, sustainable, inclusive communities and quality affordable homes for all.

HUD is working to strengthen the housing market to bolster the economy and protect consumers; meet the need for quality affordable rental homes; utilize housing as a platform for improving quality of life; build inclusive and sustainable communities free from discrimination; and transform the way HUD does business.

HUD's Organization and Reporting Structure



Major Program Activities

Government National Mortgage Association (Ginnie Mae)

Ginnie Mae's mission is to bring global capital into the housing finance market — a system that runs through the heart of our nation's economy — while minimizing risk to the taxpayer.

Ginnie Mae makes affordable housing a reality for millions of low- and moderate-income households across America by channeling global capital into the nation's housing markets. Specifically, the Ginnie Mae guaranty allows mortgage lenders to obtain a better price for their mortgage loans in the secondary mortgage market. The lenders can then use the proceeds to fund new mortgage loans available. Without that liquidity, lenders would be forced to keep all loans in their own portfolio, meaning they would not have adequate capital to make new loans.

Office of Community Planning and Development (CPD)

CPD seeks to develop viable communities by promoting integrated approaches that provide decent housing, a suitable living environment, and expand economic opportunities for low- and moderate-income persons. The primary means towards this end is the development of partnerships among all levels of government and the private sector, including for-profit and non-profit organizations. The following offices support the work of CPD through programs listed on the respective pages:

- Office of Rural Housing and Economic Development
- Office of HIV/AIDS Housing
- Office of Special Needs Assistance
- Office of Affordable Housing Programs
- Office of Block Grant Assistance

Office of Lead Hazard Control and Healthy Homes (OLHCHH)

OLHCHH provides funds to state and local governments to develop cost-effective ways to reduce lead-based paint hazards. In addition, OLHCHH enforces HUD's lead-based paint regulations, provides public outreach and technical assistance, and conducts technical studies to help protect children and their families from health and safety hazards in the home.

Office of Fair Housing and Equal Opportunity (FHEO)

The mission of FHEO is to eliminate housing discrimination, promote economic opportunity, and achieve diverse, inclusive communities by leading the nation in the enforcement, administration, development, and public understanding of federal fair housing policies and laws.

FHEO enforces laws that protect people from discrimination on the basis of race, color, religion, sex, national origin, disability, and familial status. In addition, FHEO ensures fair housing compliance by housing providers that receive HUD funding. FHEO responsibilities include:

- Investigating complaints from the public;
- Ensuring civil rights compliance in HUD programs;
- Assisting states and localities with fair housing investigations;
- Increasing public awareness of housing related civils rights;
- Awarding and monitoring fair housing grants; and
- Enhancing economic opportunity for low-income populations.

Office of Public and Indian Housing (PIH)

PIH oversees and monitors a range of programs for low-income families. The mission of PIH is to ensure safe, decent, and affordable rental housing for low-income families; create opportunities for residents' self-sufficiency and economic independence; assure fiscal integrity by all program participants; and support mixed income developments to replace distressed public housing.

As of September 1, 2018, PIH's workforce totaled 1,282 within 11 major offices at Headquarters, 45 field offices, and six Office of Native American Program (ONAP) Area Offices, all overseeing three major business areas:

- Housing Choice Voucher Programs
- Public Housing Programs
- Native American Programs

Office of Housing

The Office of Housing plays a vital role for the nation's homebuyers, homeowners, renters, and communities through its nationally administered programs. It includes the Federal Housing Administration (FHA) the largest mortgage insurer in the world. The Office of Housing is the largest office within HUD, and has the following key responsibilities:

- Operating FHA, which provides over $1.3 trillion in mortgage insurance on mortgages for Single Family homes, Multifamily properties, and Healthcare facilities;
- Managing HUD's Project Based Rental Assistance (PBRA) and other rental assistance programs, which provide support for low- and very low-income households;
- Supporting (Section 202) Housing for the Elderly and (Section 811) Housing for Persons with Disabilities programs, which provide affordable housing for some of the nation's most vulnerable populations;
- Encouraging recapitalization of the nation's aging affordable housing stock through programs such as the Rental Assistance Demonstration;
- Facilitating housing counseling assistance through HUD's Office of Housing Counseling; and
- Operating HUD's Manufactured Housing program, which administers federal standards for the design and construction of manufactured homes across the country.

The Office of Housing includes the following program offices that are most familiar to lenders, other housing industry participants, and consumers:

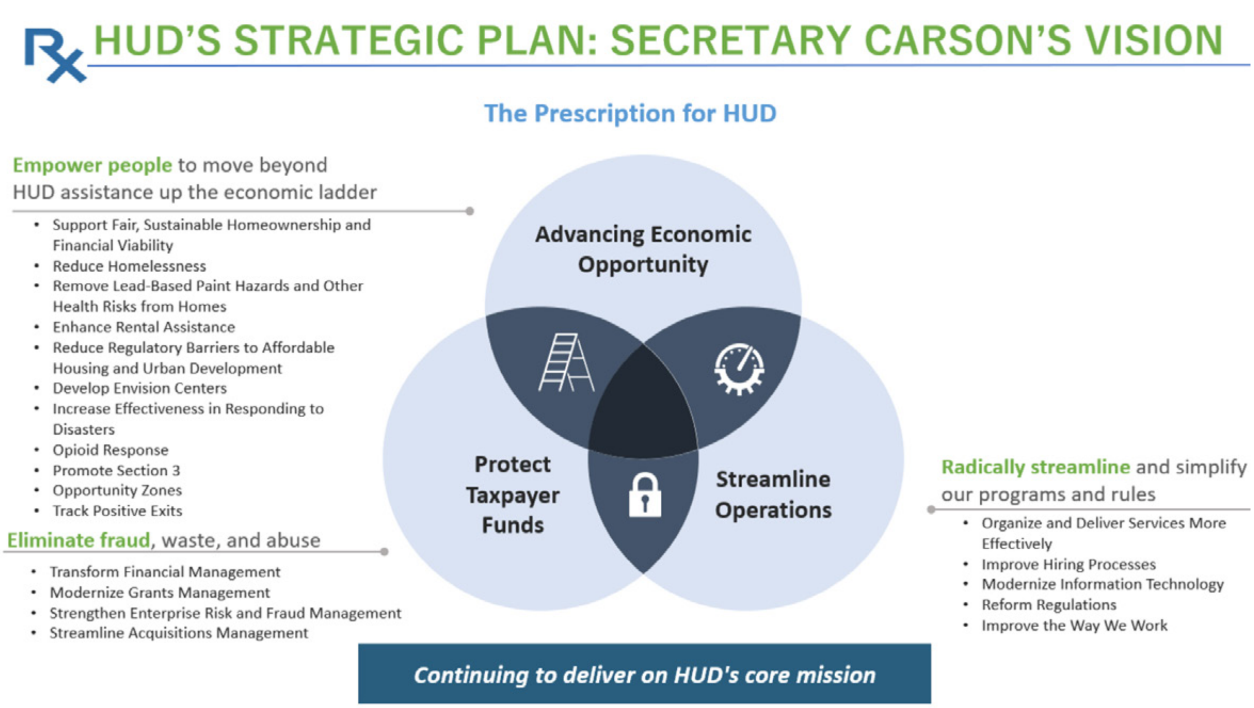
- Office of Single Family Housing administers FHA's mortgage insurance programs for mortgages secured by new or existing single family homes, condominium units, manufactured homes, and homes needing rehabilitation. It also administers FHA's reverse mortgage program, the Home Equity Conversion Mortgage (HECM), for seniors.
- Office of Multifamily Housing administers FHA's mortgage insurance programs that facilitate the construction, substantial rehabilitation, purchase, and refinancing of multifamily properties. It also administers subsidized housing programs that provide rental assistance to low-income families, the elderly, and those with disabilities, as well as the preservation and recapitalization of assisted affordable housing through such programs as RAD.
- Office of Healthcare Programs administers FHA's mortgage insurance programs that help finance the construction, renovation, acquisition, or refinancing of healthcare facilities — including hospitals, nursing homes, and assisted living facilities.
- Office of Housing Counseling administers programs that support a nationwide network of HUD-approved Housing Counseling Agencies, which provide counseling to current and prospective homeowners, renters, and victims of disasters so that they can make informed choices when addressing their housing needs. It also funds housing counseling grants and oversees the certification process for Housing Counselors.
- Office of Manufactured Housing administers HUD's oversight programs for the regulation and solutions-oriented oversight and monitoring of the affordability, quality, durability, and safety of manufactured homes. It also administers the National Manufactured Housing Construction and Safety Standards Act of 1974.
- Other Offices:
  - Office of Risk Management and Regulatory Affairs examines the financial, credit and operational risks facing the Office of Housing, and articulates effective strategies and procedures to mitigate current and emerging risks. The strategies and procedures to mitigate these risks are based on best risk management practices and established governance policy. In pursuit of this goal, the office promotes a risk-conscious climate in a manner consistent with the mission of the Office of Housing.
  - Office of Finance and Budget, which includes HUD's Asset Sales Office.

Performance Goals, Objectives, and Results

Progress Update on FY 2018-2019 Agency Priority Goals

The HUD Strategic Plan for FY 2018-2022 defined the strategic goals and objectives for the agency's major program areas. The Department's annual targets for achieving these goals and objectives were established by program milestones and performance indicators, as published in the FY 2018 Annual Performance Plan. For the two-year period, FY 2018-2019, HUD is focused on four Agency Priority Goals (APG). This portion of the FY 2018 Agency Financial Report focuses on the APGs and HUD's progress towards achieving success. Note that the APGs do not reflect the full scope of the agency's strategic goals and mission. APGs typically reflect the policy and programmatic priorities of agency leadership and the Administration at the time, and therefore do not reflect the full scope of the agency mission. A partial summary of progress for the FY 2018 APGs can be found below. For a complete review of HUD's FY 2018 performance, please see the FY 2018 Annual Performance Report, which is scheduled to be published by February 2019. Current and past APRs can be accessed online at: [www.hud.gov/program_offices/spm/appr.](www.hud.gov/program_offices/spm/appr)

The Prescription for HUD



Secretary Carson has coalesced his policy and management agenda into a Prescription for HUD. The Prescription for HUD encompasses HUD's APGs and is comprised of three pillars: Advance Economic Opportunity which empowers people to move beyond HUD assistance and up the economic ladder; Protect Taxpayer Funds which focuses on eliminating fraud, waste, and abuse; and, Streamline Operations which will radically streamline and simplify our programs and rules.

Advance Economic Opportunity: HUD is advancing economic opportunity for low-income families through homeownership, workforce training, educational advancement, and health and wellness programs and services. Policy initiatives include:

1. Support Fair, Sustainable Homeownership and Financial Viability;
2. Reduce Homelessness; ✪
3. Remove Lead-Based Paint Hazards and Other Health Risks from Homes; ✪
4. Enhance Rental Assistance; ✪
5. Reduce Regulatory Barriers to Affordable Housing and Urban Development;
6. Develop Envision Centers;
7. Increase Effectiveness in Responding to Disasters;
8. Opioid Response;
9. Promote Section 3[1];
10. Opportunity Zones; and
11. Track Positive Exits. ✪

(✪ Proposed revised APGs for the FY 2019-2020 performance period; may be subject to change.)

Protect Taxpayer Funds: HUD will improve processes and policies to enable it to meet reporting requirements and comply with laws and regulations related to all financial matters. The Department will develop new — or enhance existing — policies and procedures to provide guidance and alignment within HUD. Efforts will be driven by commitments from senior departmental leadership; clear, concise operational planning; and a focus on the needs of end customers. HUD will eliminate fraud, waste, and abuse of taxpayers' dollars. Efforts will focus on four objectives to:

1. Transform Financial Management;
2. Modernize Grants Management;
3. Strengthen Enterprise Risk and Fraud Management; and
4. Streamline Acquisitions Management.

[1] This is an APG for the FY 2018-2019 reporting period; therefore, a progress update is included in this report. A revised set of APGs will be published in the *FY 2020 Annual Performance Plan,* which will replace the FY 2018-2019 APGs.

Streamline Operations: HUD will examine its programs, customer needs, and employee expertise to streamline its operations. Alignment of program regulations, rules, and management activities will allow the Department's customers to more easily access our services. HUD will better align delegations of authority to prevent gaps and overlaps in responsibility while streamlining coordination. The Department will explore ways to strengthen coordination among program offices in headquarters and the Field to ensure that front-line employees are empowered to respond effectively to customers' needs. Department-wide efforts to simplify HUD's regulations and rules, and to improve human capital management, will support these efforts while ensuring their long-term sustainability.

HUD will streamline rules and simplify programs to better serve our customers. Efforts will focus on five objectives to:

1. Organize and Deliver Services More Effectively;
2. Improve Hiring Processes;
3. Modernize Information Technology;
4. Reform Regulations; and
5. Improve the Way We Work.

Note on FY 2018 performance data: HUD leadership is currently reviewing its APGs and performance indicators for the FY 2019-2020 performance period for better alignment with the Secretary's Vision. These revised APGs and performance indicators will be published in the FY 2020 Annual Performance Plan & FY 2018 Annual Performance Report by February 2019. For the most up-to-date performance data for HUD's current APGs, please visit HUD's APG performance page at:

www.performance.gov/housing_and_urban_development/housing_and_urban_development.html

APG: Promote Section 3[2]

HUD is strengthening an existing statutory requirement that a portion of certain HUD-funded grants and contracts be used to employ HUD-assisted residents and other low-income persons. Section 3 is being strengthened through a targeted effort to stop inefficiencies in implementation at both the federal and local level. The Section 3 Rulemaking Task Force has worked to design a cohesive and achievable revamped structure for Section 3. In addition to changes in the rule, improvements in the operational structure and technology portions of Section 3 are simultaneously underway.

In the third quarter of FY 2018, HUD announced the locations of the first cohort of the EnVision Center (Demonstration). The sites are in all 10 HUD regions and will target each community's unique challenges through the use of public and private partnerships.

[2] This APG is called "Promote Economic Opportunity" in the *FY 2019 Annual Performance Plan.*

APG: Enhance Rental Assistance

In FY 2018, HUD implemented a strategy to address the current and future needs of the Public Housing Program to be more responsive to community needs and provide local options to reposition HUD-assisted properties out of federal bureaucracy.

Through the third quarter of FY 2018, HUD has transitioned 31,645 Public Housing (PH) units to different platforms as part of the Department's strategy to provide Public Housing Authorities (PHAs) access to tools for recapitalizing the PH portfolio. These transitions represent 30% of progress made towards HUD's goal of transitioning 105,000 units by the end of FY 2019. RAD comprised 23,059 units (or 73%) of PH conversions so far in FY 2018, with 6,530 units in the third quarter alone. In addition, 7,864 units have been demolished or disposed through Q3, putting HUD on track to meet its FY 2018 target of 10,000 units transitioned using Section 18 authority. In service of this goal, HUD also published a notice intended to streamline the Section 18 process on March 22, 2018.

APG: Reduce Homelessness[3]

As of June 2018, more than 64 communities and three states have declared an effective end to veteran homelessness; three communities have ended chronic homelessness. HUD will push to continue this movement by applying lessons learned from the work on veteran homelessness and best practices from local communities that are rolling out innovative, cost-effective solutions on a national scale. This will include sharing knowledge across communities through several targeted technical assistance efforts, each customized to serve the target community and population. Two technical assistance initiatives outlined in the FY 2019 Annual Performance Plan are proceeding, with community selection underway and onboarding occurring through the fall.

HUD awarded a record $2 billion to homeless assistance programs across the nation. The money was distributed among 7,300 local homeless assistance programs under HUD's Continuum of Care (CoC) Program, which grants support to local programs serving individuals and families experiencing homelessness.

APG: Remove Lead-Based Paint Hazards and Other Health Risks from Homes

As of the third quarter of FY 2018, HUD has made 11,861 housing units lead-safe, including 5,008 units through its lead hazard control grants and 6,853 units through its Lead Safe Housing Rule compliance activities. This production represents approximately 70% of the FY 2018 annual goal of making 17,000 housing units lead-safe and healthy. Based upon this and past performance trends, HUD is on track to meet its FY 2018 cumulative target to make 158,453 units lead safe since FY 2010 using HUD dollars.

[3] This APG was called "Reduce the Average Length of Homelessness" in the *FY 2019 Annual Performance Plan.*

In June 2018, HUD launched the *Protect Our Kids!* campaign for National Healthy Homes month. This campaign aims to bring together HUD enforcement offices to collect and review documentation from HUD-affiliated properties to ensure compliance with the lead safety rules. This campaign aims to address violations of HUD's lead-based paint rules and regulations by providing assistance and enforcement actions against both private properties and HUD-assisted properties to ensure that more homes are lead hazard-free.

On June 19, 2018, HUD published the Lead-Based Paint Hazard Reduction Notice of Funding Availability (NOFA). Consistent with HUD's goal of leveraging partnerships to maximize the impact of its grants, this NOFA has multiple areas that emphasize stakeholder relationships. For instance, it includes a data sharing agreement with Health and Human Services to identify children with blood lead levels greater than five micrograms per deciliter, who are also receiving Medicaid or are enrolled in Head Start/Early Head Start programs. Identifying these children will enable HUD and its stakeholders to target at-risk communities and leverage federal funding to mitigate lead-based hazards and measure progress towards lead hazard reductions.

Forward Looking Information

Numerous external factors shape HUD's operating environment. Understanding their influence is essential for mitigating risk and achieving performance objectives. These external factors include funding levels, economic conditions, financial markets, tax codes, and other federal, state, and local conditions. HUD's new FY 2018–2022 Strategic Plan responds to these factors by reimagining the way HUD works. The Plan's reforms include careful use of evidence, employee empowerment, clear communication, and enhanced controls that are all crucial to more efficient and effective mission delivery.

Constrained federal funding levels affected most HUD programs during FY 2018 and are likely to continue in the foreseeable future. Financial constraints increase demand by PHAs for administrative and operational flexibility. HUD is implementing such flexibilities through RAD, which gives PHAs access to private capital, and by working toward an evidence-based expansion of housing agencies participating in the Moving to Work program.

In the second quarter of FY 2018, the national homeownership rate was 64.3%, up from 63.7% a year earlier. Purchases of new single family homes were up 6%, and purchases of existing homes were down 2% from a year earlier. Placements of manufactured homes were up 9%. With the increasing demand, prices of owner-occupied homes as measured by the Case-Shiller index were up 6.4% from a year earlier. Rates of mortgage delinquency, defaults, and foreclosure starts have diminished to pre-recession levels.[4]

By the end of FY 2018, the unemployment rate had improved to 3.9%, down from 4.4% a year earlier, and the employment-to-population ratio increased slightly.[5] Such employment gains should facilitate further gains in household incomes, building on the 4.0% increase in 2016 median income to $61,372 in 2017.[6] The improving employment and income situation is a positive factor for increasing the number of households able to become first-time home buyers.

Several financing and market factors, however, are restraining first-time home buying. Student loan debt poses a significant constraint on home buying by younger adults; there is $1.4 trillion of student debt outstanding, compared with $9.0 trillion of mortgage debt.[7] Other factors limiting home sales include stringent bank lending standards, a shrinking inventory of existing homes for

[4] HUD Office of Policy Development and Research (PD&R). 2018. "National Housing Market Summary, 2nd Quarter, 2018." https://www.huduser.gov/portal/ushmc/quarterly_commentary.html.

[5] Values as of August. Bureau of Labor Statistics. "Employment Situation Summary Table A. Household data, seasonally adjusted," August 2018. http://www.bls.gov/news.release/empsit.a.html.

[6] U.S. Census Bureau. 2018. Table HINC-01, "Selected Characteristics of Households by Total Money Income." https://www.census.gov/data/tables/time-series/demo/income-poverty/cps-hinc/hinc-01.html.

[7] New York Federal Reserve Bank. 2018. "Quarterly Report on Household Debt and Credit, 2018 Q2." https://www.newyorkfed.org/medialibrary/interactives/householdcredit/data/pdf/HHDC_2018Q2.pdf

sale, and weakening ownership affordability driven by increases in house prices and mortgage interest rates. Compared with a year earlier, $6,240 more income was needed in the second quarter of 2018 to qualify for a mortgage on the median-priced home, as the Homeownership Affordability Index decreased by 9% to 140 over that period. For these reasons, sales to first-time buyers accounted for 32% of sales transactions in the first quarter of 2018, and remained significantly below the historic norm of 39%.[8]

Housing construction in the second quarter of 2018, at 1.3 million single family housing starts, was about 7% greater than a year earlier. Such construction is about on pace with the household formation rate of 0.9% observed in 2016 and 2017, and annual demolitions of several hundred thousand obsolete units. On balance, housing markets remain tight. Multifamily housing starts of 343,000 units were up 4% from the previous year, and accounted for 27% of total starts, above the long-run average of 24%.[9] Despite these modest increases in multifamily development, the rental vacancy rate of 6.8% in June 2018 was lower than the 7.3% in June 2017 and only 0.1 point above the record low of 2016.[10]

HUD's rental affordability index shows that rent increases continue to outpace income growth, eroding the affordability of renting a home. The index relates median renter household income to the qualifying income for the median-priced rental unit. The rental affordability index worsened from 116.6% in first quarter of 2017 to 109.5% in the second quarter of 2018. The index implies that in 2018, the median renter has less than 10% more income than the minimum necessary to qualify, at 30% of income, for the median-priced rental unit.

The 44% of renter households that have very low incomes continue to face a substantial gap in market supply of affordable housing. The most recent available data show that in 2015, only 62.0 affordable rental units were available per 100 very low-income renters, down from 65.2 in 2013.[11] Such unmet demand for affordable housing puts pressure on waiting lists for public and assisted housing, fair market rents, and HUD's subsidy costs, and increases the difficulty that voucher recipients face in finding a suitable unit.

Shortages of affordable housing also contribute to doubling up and homelessness, especially for families. Homeless veterans for many years were overrepresented in the homeless population, especially among chronically homeless individuals, but decreased by 45% from 2010 to 2017. Progress in reducing the number of homeless people found in families with children has been more limited, with a 24% reduction from 2010 to 2017.[12]

[8] HUD PD&R. 2018. "National Housing Market Summary, 2nd Quarter, 2018."
[9] Ibid.
[10] Census Bureau. Historical Table 1. "Quarterly Rental Vacancy Rates: 1956 to Present."
[11] HUD PD&R. 2017. "Worst Case Housing Needs: 2017 Report to Congress."
[12] HUD CPD. 2017. "2017 Annual Homeless Assessment Report (AHAR) to Congress—Part 1: Point-in-Time Estimates of Homelessness."

Under the National Disaster Recovery Framework, HUD has both coordinating and primary roles in the housing recovery function, a primary role in the community planning and capacity building function, and supporting roles in several other disaster recovery functions. Over the longer term, new disasters and emerging national needs such as coastal development and insufficient flood insurance have potential to create new needs and require significant changes in the Department's program operations. Appropriations for the CDBG-Disaster Recovery program have increased to a significant fraction of HUD's budget in recent years. In addition, severe hurricanes have demonstrated their capacity to significantly change housing and employment markets on a regional basis for months or years — for example, by increasing mortgage delinquencies and foreclosures.[13]

HUD is continuing to integrate evidence and research in operations and policy, consistent with multiple governmental initiatives, and as embodied in the FY 2018–2022 Strategic Plan. Major components of this effort include the Office of Policy Development and Research's demonstration and evaluation program, which is guided by a learning agenda, HUD Research Roadmap: FY 2017 Update; increased collaboration with external partners to address cross-cutting policy issues through research; the leveraging of HUD's data infrastructure by linking administrative data with surveys and other external data sources; the continuing integration of evidence into business operations; and the establishment of an Office of Innovation to test and validate solutions to state, local, and federal housing and community development problems in the domains of building technology, internal operations, and open innovation.

[13] HUD PD&R. 2018. "National Housing Market Summary, 1st Quarter, 2018."

Analysis of Financial Condition and Results

In order to help the reader to understand the Department's financial results, position, and condition, the following analysis addresses the relevance of particular balances and amounts, as well as major changes in types and/or amounts of assets, liabilities, costs, revenues, obligations, and outlays.

The principal financial statements have been prepared from the Department's accounting records in order to report the financial position and results of HUD's operations, pursuant to the requirements of 31 United States Code (U.S.C.) §3515(b). While the statements have been prepared from the books and records of the Department in accordance with generally accepted accounting principles (GAAP) for Federal entities and the formats prescribed by the Office of Management and Budget (OMB) and the Federal Accounting Standards Advisory Board (FASAB), the statements are provided in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records.

The statements should be read with the realization that they are for a component of the United States Government, a sovereign entity.

This part provides a summary of HUD's:

- Financial Data,
- Analysis of Financial Position, and
- Analysis of Off-Balance Sheet Risk.

Summarized Financial Data

(In Billions)

	2018	2017 (Restated)
Total Assets	$198.4	$163.4
Total Liabilities	$52.4	$56.9
Net Position	$146.0	$106.6
FHA Insurance-In-Force[14]	$1,427.0	$1,382.0
Ginnie Mae Mortgage-Backed Securities Guarantees[15]	$2,008.2	$1,884.2
Other HUD Program Commitments[16]	$49.1	$39.6

[14] See FHA Standalone Financial Statements, Note 7.
[15] See Ginnie Mae Standalone Financial Statements, Note 6.
[16] See HUD AFR, Note 20.

Restatement of FY 2017 Financial Statements

During FY 2018, the Department identified errors in the FY 2017 financial statements and notes caused by mathematical mistakes, mistakes in the application of accounting principles, and oversight of facts that existed when the statements were originally prepared. The restatements are summarized as follows:

- FHA discovered that it improperly discounted the cash flows in the HECM Return on Assets (ROA) cash flow model back to the cohort year of endorsement instead of discounting back to the year of forecast, September 30, 2017.
- To be consistent with OMB Circular A-136, FHA combined the Subsidy and Interest Expense components in its FHA Note 7, Schedule for Reconciling Loan Guarantee Liability balances and Schedule for Reconciling Subsidy Cost Allowance balances.
- Correction identified by the OIG, FHA and the OCFO, pertaining to the Cost Allocation methodology to allocate Salary and Expense (S&E) costs differently between Housing FHA and Non-FHA.
- Correction of the crosswalk error in Note 3 – Status of Fund Balance with Treasury required reclassifications between the Unobligated balance available, Unobligated balance unavailable, and Obligated balance not yet disbursed.
- Removed the contingent liability and record imputed costs for the Public Housing Authorities Directors Association lawsuit against HUD paid through the Treasury's judgement fund.

Some of the above errors were material to the Consolidated Balance Sheet (BS), The Statement of Net Cost (SNC), and the Statement of Changes in Net Position (SCNP) and also at the stand-alone component level for FHA. These errors have been corrected at the component levels, resulting in restated consolidated financial statements for FY 2017, which flow-through to the beginning balances of the FY 2018 consolidated financial statements.

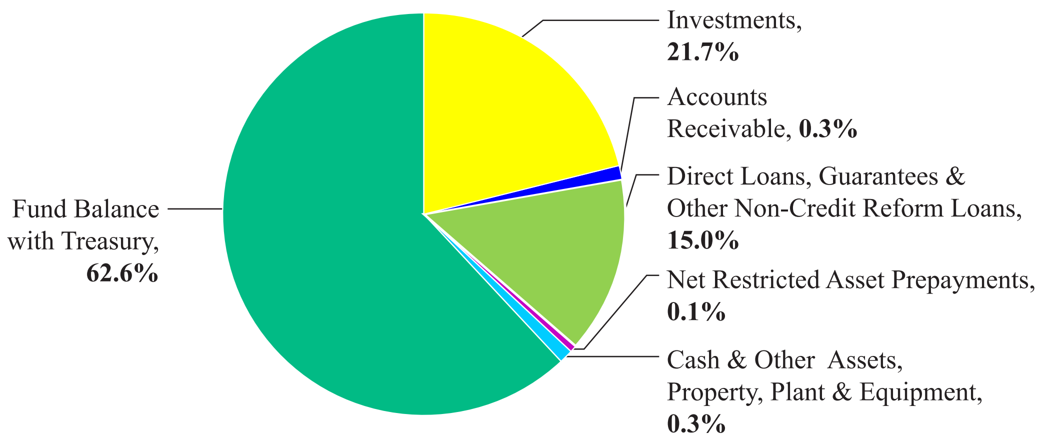
Note 24, in the Notes to the Financial Statements in Section 2, provides further details.

Analysis of Financial Position

Assets – Major Accounts

Total Assets for FY 2018, as reported in the Consolidated BS, are displayed in the graph below. Total Assets of $198.4 billion are comprised of Fund Balance with Treasury of $124.1 billion (62.6%), Investments of $43.0 billion, Accounts Receivable of $0.7 billion, Direct Loans & Loan Guarantees of $27.2 billion, Other Non-Credit Reform Loans of $2.6 billion, Net Restricted Asset Prepayments of $0.3 billion, and Cash & Other Monetary Assets, Other Assets and Property, Plant & Equipment of $0.5 billion at September 30, 2018.

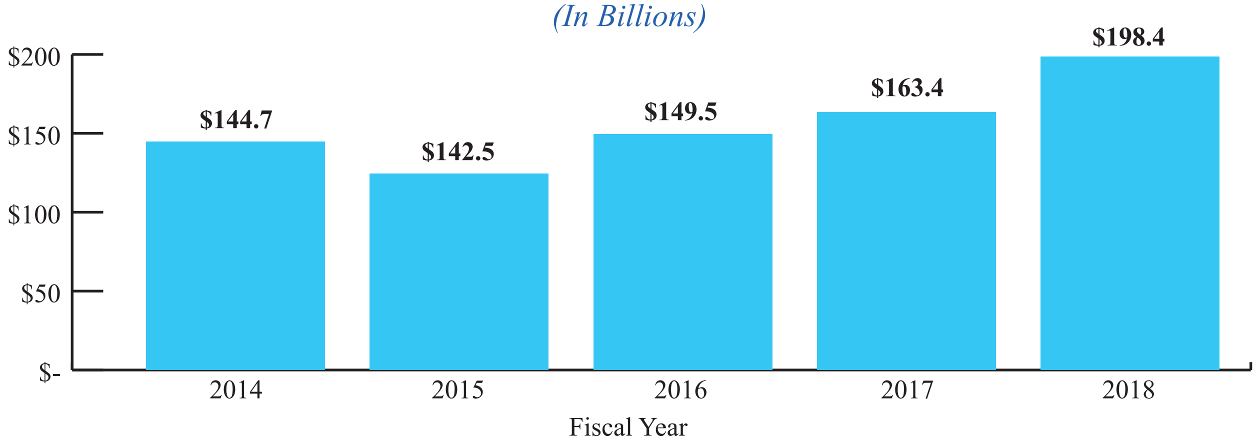
Composition of HUD Assets - FY 2018



Total Assets increased $34.9 billion (21.4%) from $163.4 billion at September 30, 2017. The net increase was due primarily to an increase of $35.3 billion (39.8%) in Fund Balance with Treasury and an increase of $5.3 billion (24.1%) in Direct Loans & Loan Guarantees, being offset by a decrease of $5.1 billion (10.7%) in Investments and a decrease of $0.4 billion (12.4%) in Other Non-Credit Reform Loans, a decrease of $0.1 billion (10.7%) in Accounts Receivable, and a decrease of $0.1 billion (22.0%) on Net Restricted Asset Prepayments. The chart below shows Total Assets for FY 2018 and the four preceding years. The changes and trends affecting Total Assets are discussed in the subsequent paragraphs.

Total Assets Trend

(In Billions)



Fund Balance with Treasury of $124.1 billion represents HUD's aggregate amount of funds available to make authorized expenditures and pay liabilities. Fund Balance with Treasury increased $35.3 billion due primarily to an increase of $4.6 billion for FHA, $3.0 billion for Ginnie Mae, $0.4 billion for Section 8, $25.4 billion for CDBGs, $0.4 billion for HOME, $0.3 billion for Homeless, $0.9 for PIH, and $0.4 billion for All Other, offset by a decrease of $0.1 billion for Housing for the Elderly and Disabled. The CDBG program fund balance increased primarily due to increased Disaster Appropriations in FY 2018 of over $27 billion. The FHA increase is due primarily to a net decrease in Mutual Mortgage Insurance Fund (MMI) and Cooperative Management Housing Insurance Fund (CMHI) investments in U.S. Treasury securities, and insurance-related collections (premiums and recoveries) slightly exceed insurance related disbursements (claims). Ginnie Mae's fund balance increased due to a $2.5 billion transfer of Capital Reserve account unobligated balance to the Financing account to support operations. The funds were moved out of short-term investments to ensure Ginnie Mae had adequate funding available in the Financing account to cover the cost of potential issuer default or Automated Clearing House (ACH) pass-through failures. Offsetting collections from claims proceeds also increased by $0.5 billion from FY 2017.

Investments of $43.0 billion consist primarily of investments by FHA's MMI/CMHI and by Ginnie Mae, in non-marketable, intra-governmental, Treasury securities (i.e., investments not sold in public markets). FHA's investments decreased by $4.2 billion primarily because the MMI/CMHI upward re-estimate exceeded the downward re-estimate, the subsidy, and interest. Ginnie Mae's investments decreased by $1.0 billion. Ginnie Mae's decreased because Capital Reserve account collections (negative subsidy, downward re-estimates, etc.) were moved from the Capital Reserve account to the Financing and Program accounts to support operations.

Accounts Receivable of $0.7 billion primarily consists of claims to cash from the public, state, and local authorities for bond refunding, Ginnie Mae premiums, FHA generic debt receivables, and Section 8 year-end settlements.

Direct Loan and Loan Guarantees of $27.2 billion are attributed to FHA credit program receivables and HUD's support of construction and rehabilitation of low-rent housing, principally for the elderly and disabled under the Section 202/811 programs. FHA's increase of $5.5 billion (27.0%) is due to an increase of $6.2 billion in HECM Loan and Interest receivables for the MMI/General Insurance (GI) funds with an offset by a proportional increase in allowance. In FY 2018 while performing quality control, the Office of Evaluation (OE) discovered that the Single Family (SF)/HECM Cash-Flow Model had been discounting incorrectly for the 2017 re-estimate. OE corrected the 2017 model and revised the recovery rates. Using the revised recovery rates, FACD calculated the 2017 HECM restatement, which decreased U.S. Standard General Ledger (USSGL) 1399 by $1.7 billion.

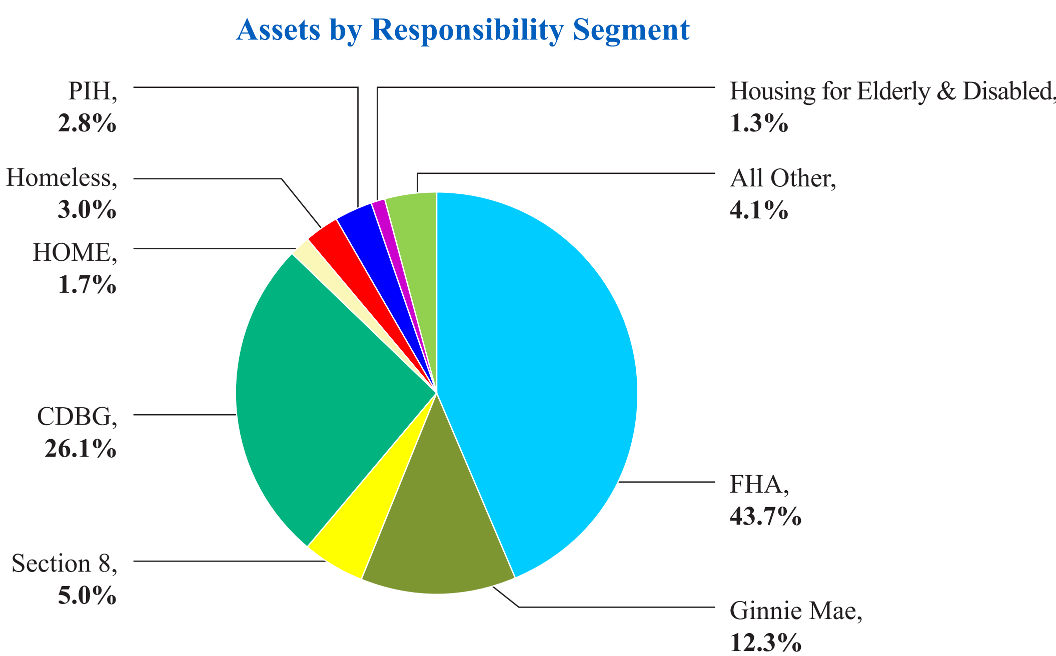
Other Non-Credit Reform Loans of $2.6 billion consists of Mortgage Loans Held for Investment, Ginnie Mae Advances Against Defaulted Mortgage-Backed Security Pools, Properties Held for Sale, Short Sale Claims Receivable, and Foreclosed Property. Ginnie Mae's balance decreased by $0.5 billion largely as a result of a decrease in loan buy-out activity from the pool.

PIH Prepayments of $0.3 billion are the Department's estimates of Restricted Net Position (RNP) balances maintained by PHAs under the HCV Program. RNP balances represent cash reserves used by PHAs to cover program expenses reported by these entities, as a result of recent funding shortfalls faced by the Department (and additional advances to PHAs participating in the Moving to Work Program).

Other Assets (Cash & Other Monetary Assets, Other Intragovernmental Assets, and Property, Plant & Equipment) of $0.5 billion comprises primarily of internal use software, furniture and fixtures, and other assets.

Assets – Major Programs

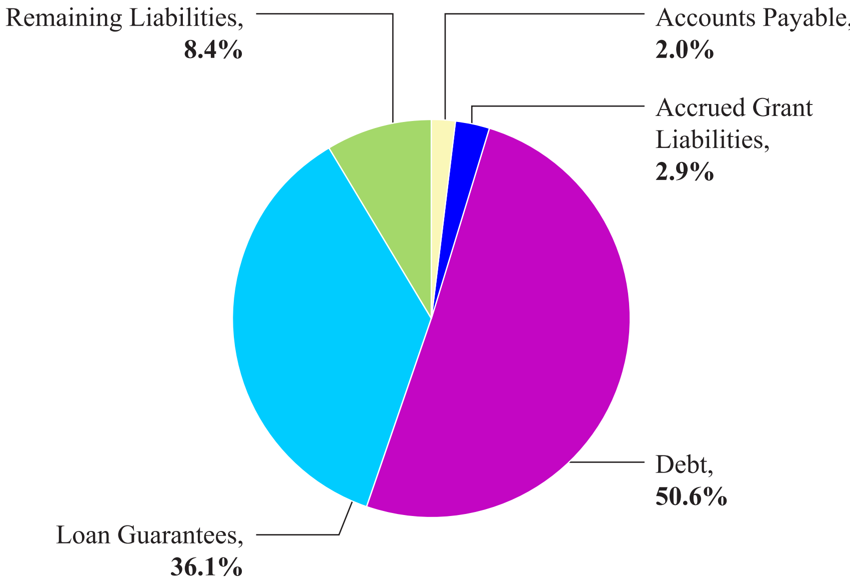
The chart below presents Total Assets for FY 2018 by major responsibility segment or program.



Liabilities – Major Accounts

Total Liabilities for FY 2018, as reported in the Consolidated Balance Sheets, are displayed in the chart below.

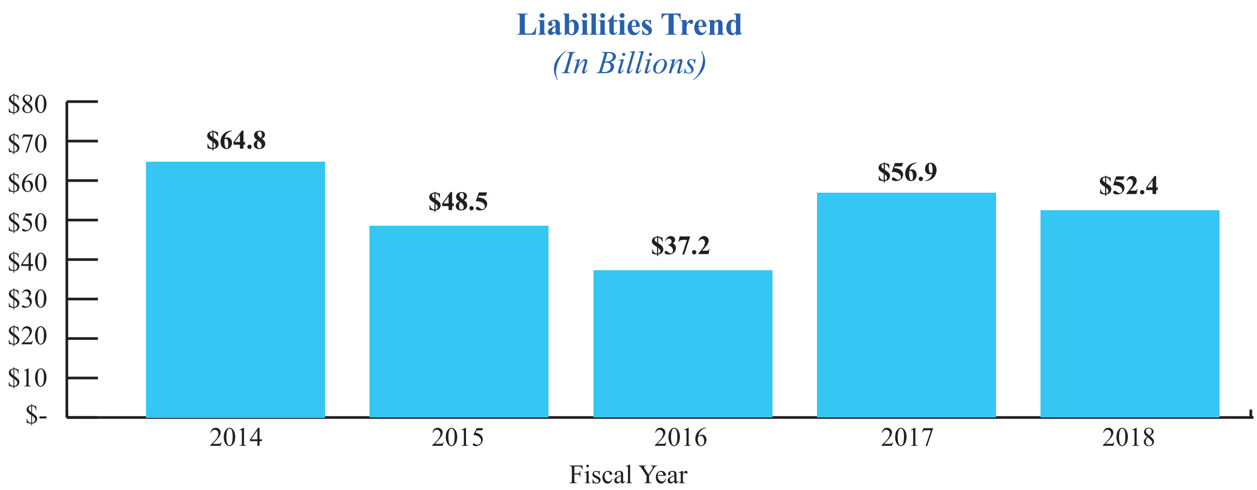
Composition of HUD Liabilities



Total Liabilities of $52.4 billion consist of Intragovernmental Debt in the amount of $26.5 billion (50.6%), Loan Guarantees amounting to $18.9 billion (36.1%), Accounts Payable of $1.1 billion (2.0%), Accrued Grant Liabilities of $1.5 billion (2.9%), and $4.4 billion of Remaining Liabilities (8.4%) at September 30, 2018.

Total Liabilities decreased by $4.4 billion from FY 2017 to FY 2018, due primarily to a decrease of $1.4 billion of Loan Guarantees, a decrease of $0.2 billion in Loss Reserves, a decrease of $2.8 billion of Intragovernmental Debt, and a decrease of $1.0 billion of Accrued Grant Liabilities, offset by an increase of $1.0 billion in Remaining Liabilities.

The chart on the next page presents Total Liabilities for FY 2018 and the four preceding years. A discussion of the changes and trends impacting Total Liabilities is presented in the subsequent paragraphs.



The Loan Guarantees liability consist of the Liability for Loan Guarantees (LLG) related to Credit Reform loans made after October 1, 1991 and the loan loss reserves (LLR) for pre-1992 loan guarantees. LLG is comprised of the present value of anticipated cash outflows for defaults such as claim payments, premium refunds, property expense for on-hand properties, and sales expense for sold properties, less anticipated cash inflows such as premium receipts, proceeds from property sales, and principal interest on Secretary-held notes. The $1.5 billion decrease from FY 2017 to FY 2018 was due primarily to a decrease of $2.4 billion in the liability for FHA's HECM under MMI/CMHI and GI/ Special Risk Insurance (SRI) funds, offset by an increase of $0.9 billion in SF forward liability which was due to re-estimates performed as of September 30, 2018.

Debt includes Intragovernmental Debt of $26.5 billion. The Intragovernmental Debt is primarily the result of FHA's principal debt with the Treasury. FHA's $2.8 billion (9.5%) decrease in borrowing was due primarily to Upward Re-estimates for GI/SRI in FY 2018, which allowed for the repayment of borrowings from Treasury.

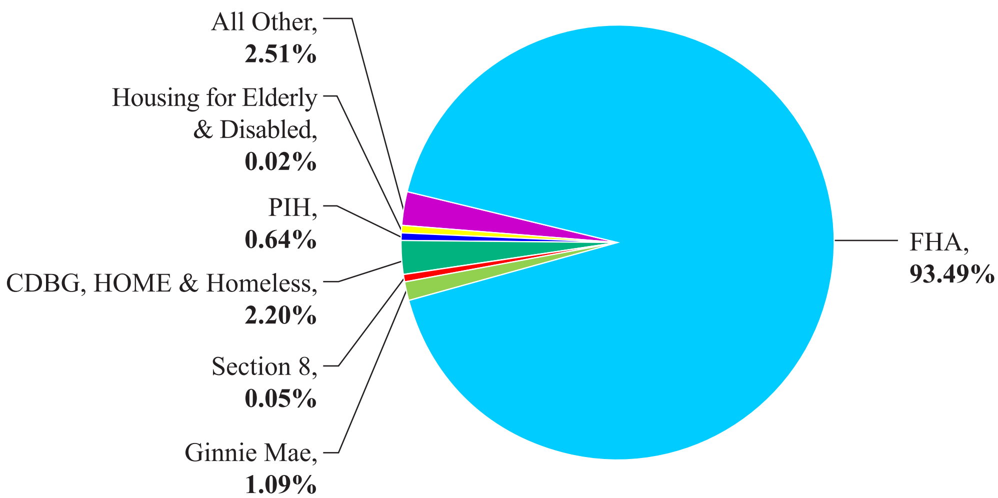
Accounts Payable consist primarily of pending grants payments. Remaining Liabilities of $4.4 billion consist of Other Intragovernmental Liabilities, Federal Employee and Veteran Benefits, Loss Reserves, and Other Liabilities. The $4.4 billion primarily consists of $3.4 billion for FHA, $0.5 for Ginnie Mae, and $0.5 for All Others. FHA increased by $1.0 billion, which consists of a $1.1 billion increase in Other Intragovernmental Liabilities offset by a $0.1 billion decrease in Other Liabilities with the Public. FHA's increase in Other Intragovernmental Liabilities was due primarily to an increase in the Receipt Account Liability due to an increase in downward re-estimates. Ginnie Mae's Loss Reserves decreased by $0.3 billion due to the total Unpaid

Principal Balance (UPB) of issuers considered probable of default. In FY 2018, Ginnie Mae identified four (4) issuers with total UPB of $2.2 billion that were considered probable of defaulting.

Liabilities – Major Programs

The chart below presents Total Liabilities for FY 2018 by responsibility segment.

Liabilities by Responsibility Segment



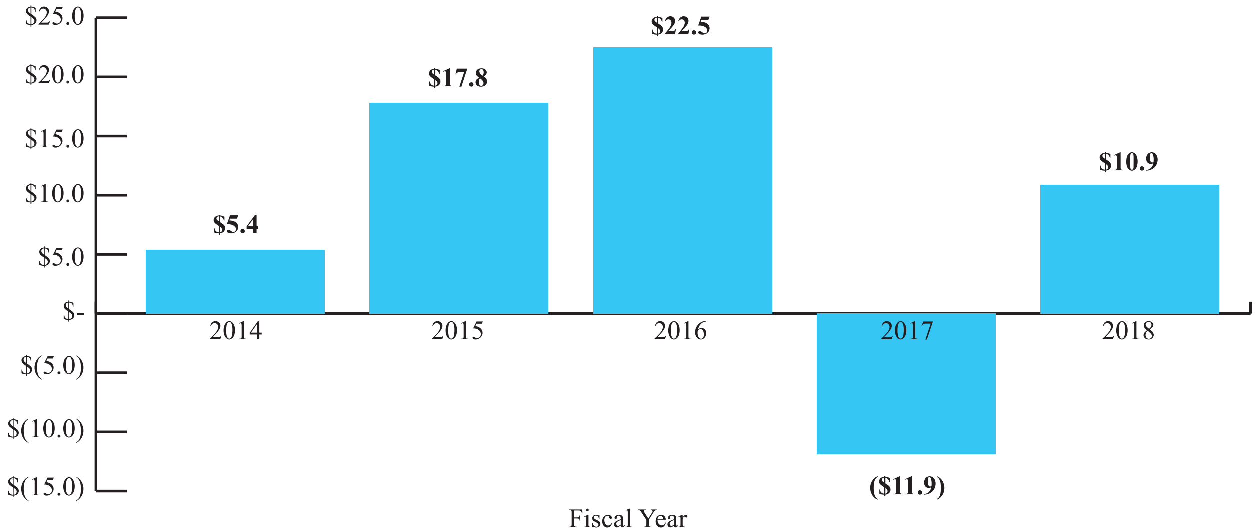
Changes in Net Position

Changes in Unexpended Appropriations, Net Cost of Operations, and Financing Sources combine to determine the Net Position at the end of the year. The elements are further discussed below. Net Position as reported in the Consolidated Statement of Changes in Net Position reflects an increase of $39.4 billion (37.0%) from the prior fiscal year. The net increase in Net Position is primarily attributable to a $28.5 billion increase in Unexpended Appropriations and $10.9 billion increase in Cumulative Results of Operations.

The combined effect of HUD's Net Cost of Operations and Financing Sources resulted in an increase in Net Results of Operations of $10.9 billion during FY 2018. Net Cost of Operations decreased by $26.4 billion from the prior year and Total Financing Sources decreased by $3.6 billion. FHA decreased by $26.4 billion primarily due to a decrease in re-estimate subsidy expense of $30.8 billion, offset by an increase of negative subsidy (less negative subsidy) of $4.4 billion. The chart below presents HUD's Net Change in Cumulative Results of Operations for FY 2018 and the four preceding years.

Net Change in Cumulative Results of Operations

(In Billions)

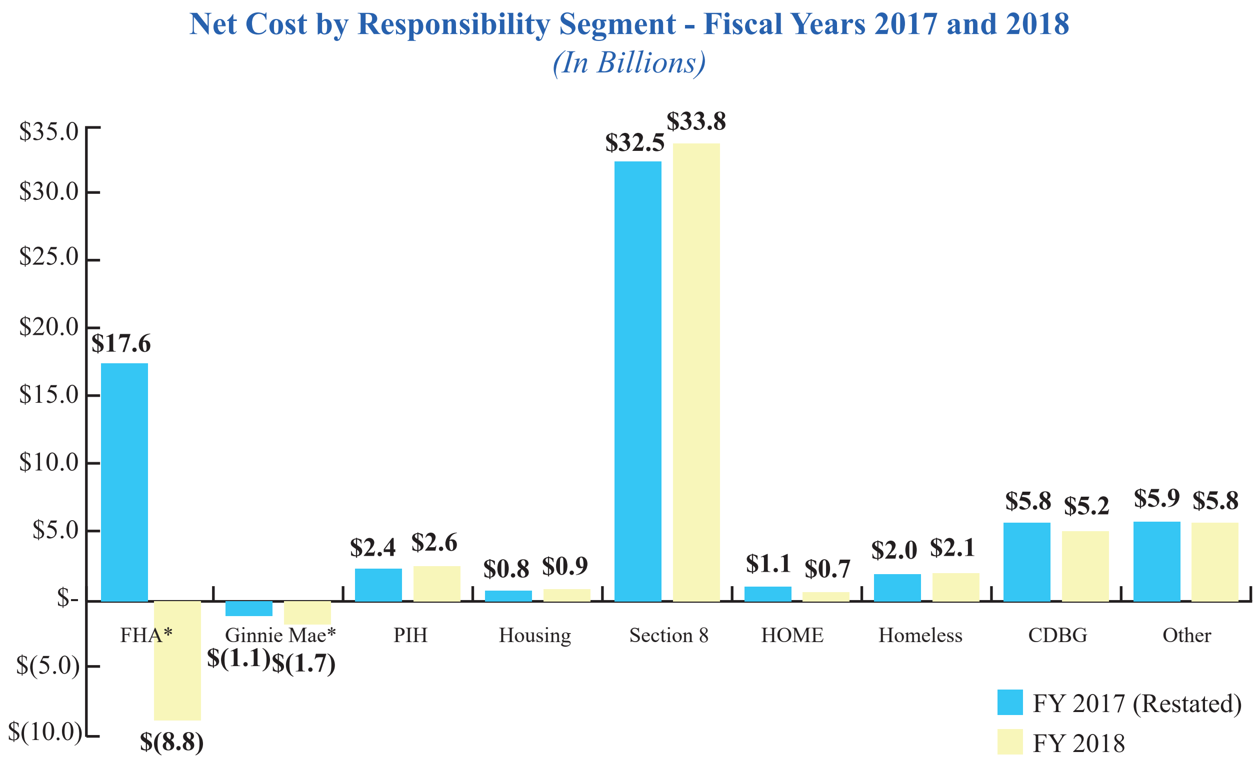


Unexpended Appropriations: The increase of $28.5 billion (53.7%) from $53.2 billion in FY 2017 to $81.7 billion is due primarily to increased Disaster Appropriations for CDBG of $26.3 billion, additional expenditures of $0.3 billion for Section 8 Rental Assistance program, $0.6 billion in HOME, $0.3 billion for Homeless, $0.9 billion in the PIH programs, and $0.1 billion in All Other.

Financing Sources: As shown in HUD's Statement of Changes in Net Position, HUD's financing sources for FY 2018 totaled $51.4 billion. This amount is comprised primarily of $53.7 billion in Appropriations Used, offset by approximately $2.3 billion in other financing sources.

Net Cost of Operations: As reported in the Consolidated Statement of Net Cost, Net Cost of Operations amounts to $40.5 billion for FY 2018, resulting in a $26.4 billion decrease from the prior fiscal year due to FHA's decrease in re-estimate subsidy expense of $30.8 billion, offset by an increase of negative subsidy (less negative subsidy) of $4.4 billion. Net Cost of Operations consists of total costs, including direct program and administrative costs, offset by program exchange revenues.

The chart below presents HUD's Total Net Cost for FY 2017 and FY 2018 by responsibility segment.



*FHA and Ginnie Mae's negative net cost includes negative subsidies.

As shown in the chart, Gross Cost of Operations was primarily a result of spending of $33.8 billion, (83.3%) of Net Cost, in support of the Section 8 program (administered jointly by PIH, Housing, and CPD programs). The current fiscal year change in Net Cost for the Section 8 programs was $1.3 billion (4.0%) more than the prior fiscal year.

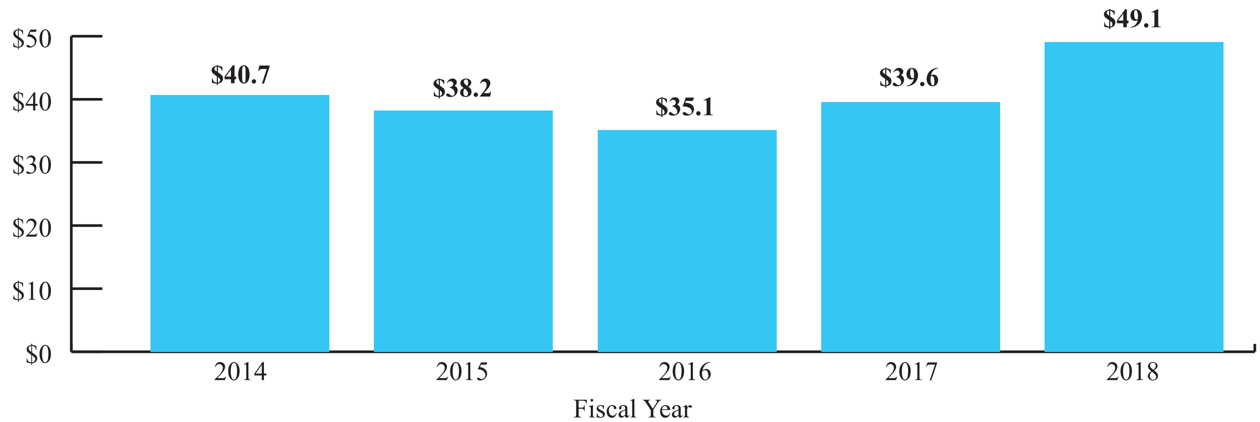
Analysis of Off-Balance-Sheet Risk

The financial risks of HUD's credit activities are due primarily to managing FHA's insurance of mortgage guarantees and Ginnie Mae's guarantees of Mortgage Backed Securities (MBS). Financial operations of these entities can be affected by large unanticipated losses from defaults by borrowers and issuers and by an inability to sell the underlying collateral for an amount sufficient to recover all costs incurred.

Contractual and Administrative Commitments

HUD's Contractual Commitments of $49.1 billion in FY 2018 represent HUD's commitment to provide funds in future periods under existing contracts for its grant, loan, and subsidy programs. Administrative Commitments (reservations) of $30.3 billion relate to specific projects, for which funds will be provided upon execution of the related contract.

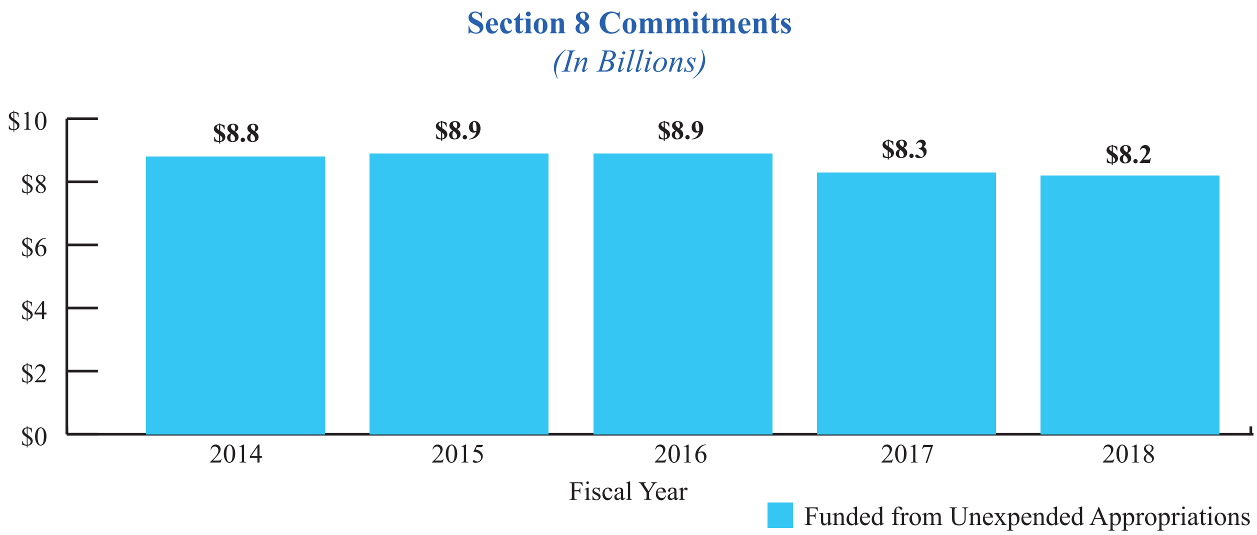
Commitments Under HUD's Grants, Subsidy, and Loan Programs
(In Billions)



These commitments are funded primarily by a combination of unexpended appropriations and permanent indefinite appropriations, depending on the inception date of the contract. HUD draws on permanent indefinite budget authority to fund the current year's portion of contracts entered into prior to FY 1988 in the rental assistance program. The remaining HUD programs receives direct appropriations. Since FY 1988, HUD has appropriated funds in advance for the entire contract term in the initial year, resulting in substantial increases and sustained balances in HUD's unexpended appropriations.

Total Commitments (contractual and administrative) increased by $36.1 billion (83.6%) during FY 2018. The change is primarily attributable to an increase of $34.0 billion in CDBG, $0.3 billion in Ginnie Mae, $0.6 billion in HOME, $0.1 billion for Homeless, $0.9 for PIH, and $0.5 in All Other Commitments, offset by a decrease of $0.3 billion in Sections 202, 235 & 236. The increase in CDBG contractual commitments was related to disaster activities.

The chart below presents HUD's Section 8 Contractual Commitments for FY 2018 and the four preceding years.

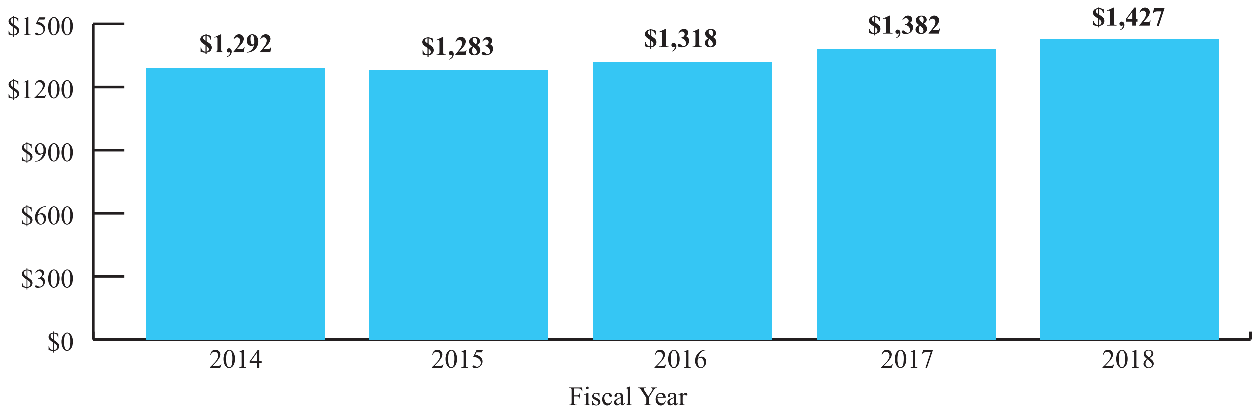


To contain the costs of future Section 8 contract renewals, HUD began converting all expiring contracts to one-year terms during FY 1996. By changing to one-year contract terms, HUD effectively reduced the annual budget authority needed from Congress.

FHA Insurance-In-Force

FHA administers a wide range of activities to make mortgage financing more accessible to the home-buying public and to increase the availability of affordable housing to families and individuals, particularly to the nation's poor and disadvantaged. FHA insures private lenders against loss on mortgages, which finance single family homes, and reverse mortgages, also referred to as HECM. The chart the below presents FHA's Insurance-In-Force (including the Outstanding Balance of HECM loans), of $1,427.0 billion for FY 2018, and the four preceding years. This is an increase of $45.0 billion (3.3%) from the FY 2017 FHA Insurance-In-Force of $1,382.0 billion. The HECM insurance in force includes balances drawn by the mortgagee; interest accrued on the balances drawn, service charges, and mortgage insurance premiums.

FHA Insurance-In-Force
(In Billions)

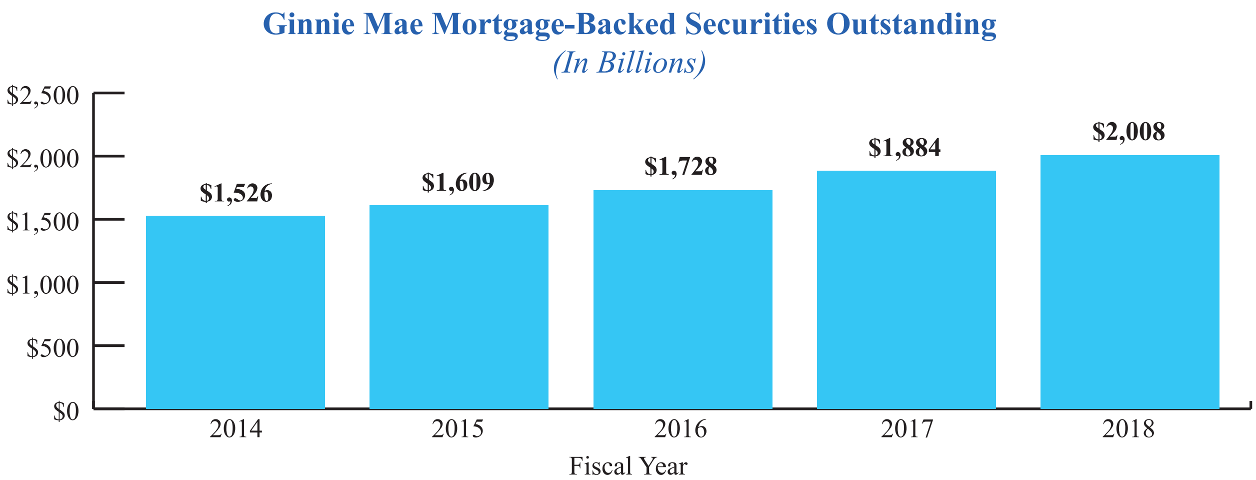


Ginnie Mae Guarantees

Ginnie Mae financial instruments with off-balance sheet risk include guarantees of MBS and commitments to guarantee. The securities are backed by pools of mortgage loans insured by FHA, PIH and Rural Housing Service, and are guaranteed by the U.S. Department of Veterans Affairs (VA). Ginnie Mae is exposed to credit loss in the event of non-performance by other parties to the financial instruments. The total amount of Ginnie Mae guaranteed securities outstanding at September 30, 2018 and 2017 were approximately $2,008.2 billion and $1,884.2 billion, respectively. In the event of default, the underlying mortgages serve as primary collateral, and FHA, USDA, VA and PIH insurance or guarantee indemnifies Ginnie Mae for most losses.

During the mortgage closing period and prior to granting its guaranty, Ginnie Mae enters into commitments to guarantee MBS. The commitment ends when the MBS are issued or when the commitment period expires. While Ginnie Mae's risks related to outstanding commitments are much less than outstanding securities due in part to the Federal guarantee on the underlying portfolio, Ginnie Mae is also able to mitigate risk through its ability to limit commitment authority granted to individual issuers of MBS. Outstanding commitments as of September 30, 2018 and 2017 were $124.6 billion and $120.9 billion, respectively.

The chart below presents Ginnie Mae MBS for FY 2018 and the four preceding years.



Generally, Ginnie Mae's MBS pools are diversified among issuers and geographic areas. No significant geographic concentrations of credit risk exist; however, to a limited extent, securities are concentrated among issuers. In FY 2018 and 2017, Ginnie Mae issued a total of $97.1 billion and $88.4 billion, respectively, in its multi-class securities program. The estimated outstanding balance of multiclass securities in the total MBS securities balance at September 30, 2018 and 2017 were $489.7 billion and $466.6 billion, respectively. These securities do not subject Ginnie Mae to additional credit risk beyond that assumed under the MBS program.

Multi-class securities include:

- **REMICs:** Real Estate Mortgage Investment Conduits are a type of multiclass mortgage-related security in which interest and principal payments from mortgages are structured into separately traded securities.
- **Stripped MBS:** Stripped MBS are securities created by "stripping" or separating the principal and interest payments from the underlying pool of mortgages into two classes of securities, with each receiving a different proportion of the principal and interest payments.
- **Platinum Securities:** A Ginnie Mae Platinum security is formed by combining Ginnie Mae's MBS pools that have uniform coupons and original terms to maturity into a single certificate.
- **Callable Trusts:** Callable Trusts allow investors to better manage repayment risk and call redemptions at negotiated prices. Call features are attractive to issuers, because they allow them to refinance their debt in the event that interest rates fluctuate.

Management Assurances

2018 ANNUAL ASSURANCE STATEMENT

The Department of Housing and Urban Development's management is responsible for managing risks and maintaining effective internal control and financial management systems that meet the objectives of Sections 2 and 4 of the Federal Managers' Financial Integrity Act of 1982 (FMFIA). HUD conducted a limited annual assessment of risk and internal controls in accordance with OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control.*

Based on the results of the assessment HUD cannot provide a reasonable statement of assurance that its internal controls over operations (Section 2) were operating effectively as of September 30, 2018. The Office of the Inspector General has noted weaknesses related to the design and operation of HUD's internal controls over operations.

The Department conducted a limited assessment of the effectiveness of internal control over financial reporting in accordance with Appendix A of OMB Circular No. A-123. Due to the assessment and five known material weaknesses related to financial reporting, the Department in unable to provide assurance that internal controls over financial reporting were operating effectively as of June 30, 2018 and updated through September 30, 2018.

The Federal Financial Management Improvement Act of 1996 (FFMIA) requires agencies to implement and maintain financial management systems that are substantially in compliance with Federal financial management systems requirements, Federal accounting standards, and the United States Standard General Ledger at the transaction-level. The Department is unable to provide assurance that its financial management systems (Section 4) comply with FFMIA as of September 30, 2018, due to financial management system weaknesses and system non-conformances with FFMIA. Additional details related to the material weaknesses and systems non-conformances are further discussed in the Other Information Section.

Ben Carson — November 15, 2018

Secretary

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Section 2
Financial Information

Message from the Chief Financial Officer

November 15, 2018

I was honored to join the Department of Housing and Urban Development (HUD) as its Chief Financial Officer (CFO) after a 37-year career in the private sector. The CFO position has been vacant at HUD for several years. I was brought aboard to focus on the Secretary's priority to protect taxpayers' funds from fraud, waste and abuse and streamline operations. I spent the first 100 days building key relationships within HUD and throughout key government constituents, learning the operations of HUD, understanding the financial statement close process and assessing risk. The people at HUD, especially the Office of the Chief Financial Officer (OCFO) team, have been very helpful in my acclimation process to HUD and government at large.

To operate sound financial systems and operations, an entity needs strong people, processes and technology. I spent considerable time evaluating HUD's people, processes and technology, and concluded each area needs significant attention to restore strong financial systems. There are many root causes for the deteriorated state of HUD's financial systems. It began with a lack of financial leadership at HUD for several years. Also, there has been a significant lack of investments in people, processes and technology. We have great people at HUD, including within the OCFO. However, we need to make sure we are providing the right training, tools and mentoring so everyone has the opportunity to excel and be successful. We also need to make sure our recruiting practices are aligned with our strategic vision, so we are hiring the right workforce for the future. We need to implement and document better financial processes throughout HUD to ensure we have the right controls and processes to protect taxpayers' funds. And finally, we need to modernize our Information Technology (IT) systems. HUD has antiquated IT systems, which do not interface very well, are clumsy to work with and expensive to support. HUD needs to modernize our IT systems to be more efficient and effective in our operations and provide better data analytics to improve the control and operating environment and make better decisions.

Given the historical lack of investment in people, process and technology, HUD's operations have outgrown its infrastructure. There are many inherent risks in HUD's financial and operating environment. For example, HUD needs significant improvement in its compliance monitoring in its grant programs and the mortgage processes. Recently, we have instituted more governance processes around critical areas, but resources are needed to implement processes to fully comply with monitoring and reporting requirements.

My goal is to restore financial soundness to HUD's operations by improving people, process and technology. The vision is to progress the OCFO to function as a business partner to HUD's programs using modernized business processes and data analytics to help protect taxpayers' funds and streamline operations. Based on my initial assessment and vision, the OCFO has developed the following strategic objectives:

Finance Transformation plan

We developed a finance transformation framework, which focuses on a comprehensive overhaul of our financial process. The goals are to: assess current state accounting operations and controls within the OCFO and HUD's programs; develop future state processes; determine more effective and efficient ways to expand use of our Inter-Agency Agreement with the Department of Treasury's Administrative Resource Center (ARC); and focus on improved grants and subsidy management and credit program management.

This is a three-to-five-year plan, which requires significant resources. We will continue to work with Congress and the Administration to secure resources.

Improve Governance- Agency-wide Integrity Task Force

We formed, and I chair, our Agency-wide Integrity Task Force (Task Force), which is designed to reduce risk and improve areas of operational deficiencies within and throughout HUD. The Task Force consists of selected HUD's leadership team who oversee project management teams formed to implement actions steps to improve identified areas of deficiency. The initial areas for improvement include: Finance Transformation, IT Modernization, Grant Modernization, HR Processes, Procurement and Acquisitions Processes and Enterprise Risk Assessment.

Fiscal Responsibility – short-term remediation efforts for material weaknesses

We developed a process to assess, identify and monitor detailed remediation steps for certain material weaknesses. Included in Section 3 of this AFR is a summary of accomplishments related to our efforts in the last nine months.

Agency-wide Enterprise Risk Assessment

OCFO has existing Enterprise Risk Management (ERM) processes and a dedicated team. We have expanded the scope of the team to include all key risk within each program office, C-Suite Offices and the mortgage businesses. The goal is to ensure we have transparent oversight related to financial and operational risk within HUD and processes in place to monitor such risk.

Oversight of Community Development Block Grant - Disaster Recovery Funds

Given the growth in disaster recovery grants in the past few years, we dedicated resources to proactively review the internal controls related to the flow-of-funds. The process is designed to review internal control compliance before significant funds are dispersed.

IT and Grant Modernization

We are coordinating with the Office of Chief Information Office (OCIO) and Program leadership to develop an IT and Grant Modernization plan to improve our IT and Grant systems and business processes. We recently partnered with the U.S. General Services Administration (GSA) as part of the Center of Excellence initiative to modernize HUD's information technology systems and operating procedures.

I am proud of our OCFO team for their support and embracing a new path forward. Over the last nine months, together, we have made improvements in many areas and are working with a clear vision towards improving our financial accounting systems to protect taxpayer funds and streamline operations. Below is summary of key accomplishments to date, the details of which are included in Section 3 of this AFR.

- Developed a Financial Transformation Framework.
- Formed and operationalized the Agency-wide Integrity Task Force.
- Developed remediation plans for select material weaknesses, consistent with available resources.
- Formed the Mortgage Risk Review Committee to oversee risk and related processes in FHA and Ginnie Mae.
- OCFO provided oversight to ensure Ginnie Mae completed its processes and procedures related to the non-pooled assets, which is a source of the audit report disclaimer by HUD's Office of Inspector General (OIG). The OIG is able to audit Ginnie Mae in FY 2019.
- Reconstituted the Financial Management Council meetings.
- Reached near-full compliance with the Digital Accountability and Transparency Act of 2014 (DATA Act).
- Developed process to improve our reporting under the GONE Act.
- Improved compliance with Congressional Reporting requirements.
- Improved HUD's budgetary formulation processes.
- Improved governance oversight controls.
- Developed new OCFO Oversight Process for the CDBG-DR funds for Puerto Rico and U.S. Virgin Islands.
- Developed and held an educational training for non-financial and financial personnel.

- Started a monthly financial statement close process during the year.
- Substantial improvement in the OCFO Employee Viewpoint Survey scores.

Our efforts have yielded some positive results. We are on a clear path toward improvements with a clear vision and identified goals. During fiscal 2018, we expanded and refined our internal control program and strengthen our control environment, which detected material errors in historical data that were not previously identified by HUD's then-control environment. The FY 2017 financial statements have been restated for such amounts. I believe, as we continue to enhance our internal control program and strengthen our operations, it is likely we will continue to identify undetected issues from prior years, which may result in future restatements and more reliable financial statements.

Despite our recent accomplishments, we have much work to do. It will take a three-to-five-year effort to fully remediate HUD's financial statement material weaknesses and restore sound financial management and stability. I am confident, if provided the needed resources, we can make the proper investments in people, processes and technology and achieve the goals we have set out to protect taxpayer funds and streamline operations.

Sincerely,

Irving L. Dennis
Chief Financial Officer

Our Mission

Transform HUD's OCFO operations to **EXCELLENCE**. Develop a culture where **PEOPLE** can excel in a collaborative environment; Develop well-designed **PROCESSES** for delivery and accountability; and Develop **TECHNOLOGY** that delivers accurate data timely.

OCFO Inspiring Change

Our Path to Excellence

Near-term Goals:

- Remediation of audit findings, where practicable.
- Implement HUD OCFO Transformation Strategy that is sustainable through leadership changes.

Where we want to be:

PEOPLE working in a collaborative learning environment with well-designed **PROCESSES** and **TECHNOLOGY** to achieve **FINANCIAL REPORTING EXCELLENCE.**

Financial Statements

Introduction

The principal financial statements have been prepared to report the financial position and results of operations of HUD, pursuant to the requirements of 31 U.S.C. §3515(b). While the statements have been prepared from HUD's books and records in accordance with GAAP for Federal entities and the formats prescribed by the OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records. The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

The following financial statements are presented:

The **Consolidated Balance Sheet (BS),** as of September 30, 2018, and 2017, which presents those resources owned or managed by HUD that are available to provide future economic benefits (assets), amounts owed by HUD that will require payments from those resources or future resources (liabilities), and residual amounts retained by HUD comprising the difference (net position).

The **Consolidated Statement of Net Cost (SNC),** which presents the net cost of HUD operations for the fiscal years ended September 30, 2018, and 2017. HUD's net cost of operations includes the gross costs incurred by HUD less any exchange revenue earned from HUD activities.

The **Consolidated Statement of Changes in Net Position (SCNP),** which presents the change in HUD's net position resulting from the net cost of HUD operations, budgetary financing sources other than exchange revenues, and other financing sources for the fiscal years ended September 30, 2018, and 2017.

The **Combined Statement of Budgetary Resources (SBR),** which presents the budgetary resources available to HUD during FY 2018 and FY 2017, the status of these resources at September 30, 2018, and 2017, and the outlay of budgetary resources for the years ended September 30, 2018, and 2017.

The **Notes to the Financial Statements** provide important disclosures and details related to information reported on the statements.

Consolidated Balance Sheet
As of September 30, 2018 and 2017
(In Millions)

	2018	2017 (Restated)
Assets:		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$124,133	$88,824
Investments (Note 5)	42,992	48,118
Other Assets (Note 11)	47	20
Total Intragovernmental	**$167,172**	**$136,962**
Cash and Other Monetary Assets (Note 4)	$67	$81
Investments (Note 5)	8	44
Accounts Receivable, Net (Note 6)	648	726
Direct Loans and Loan Guarantees (Note 7)	27,233	21,946
Other Non-Credit Reform Loans (Note 8)	2,576	2,940
General Property, Plant, and Equipment, Net (Note 9)	423	412
PIH Prepayments (Note 10)	263	337
Total Assets	**$198,390**	**$163,448**
Liabilities (Note 12):		
Intragovernmental:		
Accounts Payable	$43	$26
Debt (Note 13)	26,513	29,269
Other Liabilities (Note 15)	3,142	2,122
Total Intragovernmental Liabilities	$29,698	$31,417
Accounts Payable	$1,026	$1,000
Accrued Grant Liabilities	1,495	2,503
Loan Guarantee Liability (Note 7)	18,948	20,334
Debt Held by the Public (Note 13)	3	2
Federal Employee and Veteran Benefits (Note 14)	63	65
Loss Reserves (Note 16)	21	268
Other Liabilities (Note 15)	1,185	1,295
Total Liabilities	**$52,439**	**$56,884**
Commitments and Contingencies (Note 16)	$-	$55
Net Position:		
Unexpended Appropriations - Funds from Dedicated Collections (Combined Totals) (Note 17)	$(308)	$(321)
Unexpended Appropriations - All Other Funds (Combined Totals)	82,005	53,484
Cumulative Results of Operations - Funds From Dedicated Collections (Combined Totals) (Note 17)	25,571	23,849
Cumulative Results of Operations - All Other Funds (Combined Totals)	38,683	29,552
Total Net Position - Funds from Dedicated Collections (Combined Totals) (Note 17)	**25,263**	**23,528**
Total Net Position - All Other Funds (Combined Totals)	**120,688**	**83,036**
Total Net Position	**145,951**	**106,564**
Total Liabilities and Net Position	**$198,390**	**$163,448**

The accompanying notes are an integral part of these statements.

Consolidated Statement of Net Cost
As of September 30, 2018 and 2017
(In Millions)

	2018	2017 (Restated)
COSTS		
Federal Housing Administration (FHA)		
Gross Costs	$(6,708)	$19,333
Less: Earned Revenue	(2,080)	(1,752)
Net Program Costs	$(8,788)	$17,581
Government National Mortgage Association (GNMA)		
Gross Costs	$69	$582
Less: Earned Revenue	(1,770)	(1,692)
Net Program Costs	$(1,701)	$(1,110)
Section 8 Rental Assistance		
Gross Costs	$33,770	$32,468
Less: Earned Revenue	-	-
Net Program Costs	$33,770	$32,468
Public and Indian Housing Loans and Grants (PIH)		
Gross Costs	$2,598	$2,388
Less: Earned Revenue	-	(1)
Net Program Costs	$2,598	$2,387
Homeless Assistance Grants		
Gross Costs	$2,086	$2,032
Less: Earned Revenue	(1)	(1)
Net Program Costs	$2,085	$2,031
Housing for the Elderly and Disabled		
Gross Costs	$924	$928
Less: Earned Revenue	(74)	(92)
Net Program Costs	$850	$836
Community Development Block Grants (CDBG)		
Gross Costs	$5,196	$5,760
Less: Earned Revenue	-	-
Net Program Costs	$5,196	$5,760
HOME		
Gross Costs	$740	$1,073
Less: Earned Revenue	-	-
Net Program Costs	$740	$1,073
All Other		
Gross Costs	$5,636	$5,737
Less: Earned Revenue	(39)	(34)
Net Program Costs	$5,597	$5,703
Costs not Assigned to Programs	**$202**	**$185**
Consolidated		
Gross Costs	$44,513	$70,486
Less: Earned Revenue	(3,964)	(3,572)
Net Cost of Operations	**$40,549**	**$66,914**

The accompanying notes are an integral part of these statements.

Consolidated Statement of Changes Net Position
As of September 30, 2018 and 2017
(In Millions)

	2018			
	Funds From Dedicated Collections (Combined Totals)	All Other Funds (Combined Totals)	Eliminations	Consolidated Total
Unexpended Appropriations:				
Beginning Balances	$(321)	$53,484	$-	$53,163
Adjustments:				
Beginning Balance, as Adjusted	$(321)	$53,484	$-	$53,163
Budgetary Financing Sources:				
Appropriations Received	$-	$82,725	$-	$82,725
Appropriations Transferred-in/out	179	(180)	-	(1)
Other Adjustments	-	(455)	-	(455)
Appropriations Used	(166)	(53,569)	-	(53,735)
Total Budgetary Financing Sources	$13	$28,521	$-	$28,534
Total Unexpended Appropriations	**$(308)**	**$82,005**	**$-**	**$81,697**
Cumulative Results from Operations:				
Beginning Balances	$23,849	$29,552	$-	$53,401
Beginning Balances, as Adjusted	$23,849	$29,552	$-	$53,401
Budgetary Financing Sources:				
Other Adjustments	$(2)	$-	$-	$(2)
Appropriations Used	166	53,569	-	53,735
Nonexchange Revenue	7	15	-	22
Transfers-in/out without Reimbursement	-	(447)	443	(4)
Other	-	-	-	-
Other Financing Sources (Nonexchange):				
Transfers-in/out without Reimbursement	$-	$443	$(443)	$-
Imputed Financing	1	74	-	75
Other	(11)	(2,413)	-	(2,424)
Total Financing Sources	$161	$51,241	-	$51,402
Net Cost of Operations	1,561	(42,110)	-	(40,549)
Net Change	$1,722	$9,131	-	$10,853
Cumulative Results of Operations	**$25,571**	**$38,683**	**$-**	**$64,254**
Net Position	**$25,263**	**$120,688**	**$-**	**$145,951**

The accompanying notes are an integral part of these statements.

Consolidated Statement of Changes Net Position
As of September 30, 2018 and 2017
(In Millions)

	2017 (Restated)			
	Funds From Dedicated Collections (Combined Totals)	All Other Funds (Combined Totals)	Eliminations	Consolidated Total
Unexpended Appropriations:				
Beginning Balances	$(343)	$47,258	$-	$46,915
Adjustments:				
Beginning Balance, as Adjusted	$(343)	$47,258	$-	$46,915
Budgetary Financing Sources:				
Appropriations Received	$-	$62,048	$-	$62,048
Appropriations Transferred-in/out	146	(145)	-	1
Other Adjustments	(8)	(425)	-	(433)
Appropriations Used	(116)	(55,252)	-	(55,368)
Total Budgetary Financing Sources	$22	$6,226	$-	$6,248
Total Unexpended Appropriations	**$(321)**	**$53,484**	**$-**	**$53,163**
Cumulative Results from Operations:				
Beginning Balances	$22,730	$42,605	$-	$65,335
Beginning Balances, as Adjusted	$22,730	$42,605	$-	$65,335
Budgetary Financing Sources:				
Other Adjustments	$(3)	$-	$-	$(3)
Appropriations Used	116	55,252	-	55,368
Nonexchange Revenue	2	251	-	253
Transfers-in/out without Reimbursement	-	(775)	773	(2)
Other	-	(174)	-	(174)
Other Financing Sources (Nonexchange):				
Transfers-in/out without Reimbursement	$-	$947	$(773)	$174
Imputed Financing	1	190	-	191
Other	-	(827)	-	(827)
Total Financing Sources	$116	$54,864	$-	$54,980
Net Cost of Operations	1,003	(67,917)	-	(66,913)
Net Change	$1,119	$(13,053)	$-	(11,934)
Cumulative Results of Operations	**$23,849**	**$29,552**	**$-**	**$53,401**
Net Position	**$23,528**	**$83,036**	**$-**	**$106,564**

The accompanying notes are an integral part of these statements.

Combined Statement of Budgetary Resources
As of September 30, 2018
(In Millions)

	2018	
	Budgetary	**Non-Budgetary Credit Reform Financing Accounts**
Budgetary Resources:		
Unobligated Balance From Prior Year Budget Authority, Net	$63,620	$29,750
Appropriations (discretionary and mandatory)	82,957	-
Borrowing Authority (discretionary and mandatory)	-	8,210
Spending Authority from Offsetting Collections	11,339	25,750
Total Budgetary Resources	**$157,916**	**$63,710**
Memorandom (non-add) Entries:		
Net Adjustments to unobligated balance brought forward, Oct 1	$(3,711)	$3,870
Status of Budgetary Resources:		
New Obligations and Upward Adjustments (Total) (Note 21)	$76,563	$30,397
Unobligated Balance, End of Year:		
Apportioned, Unexpired Accounts	35,297	13,234
Unapportioned, Unexpired Accounts	45,306	20,079
Unexpired Unobligated Balance, End of Year	$80,603	$33,313
Expired Unobligated Balance, End of Year	750	-
Unobligated Balance, End of Year (Total)	$81,353	$33,313
Total Budgetary Resources	**$157,916**	**$63,710**
Outlays, Net:		
Outlays, Net (Total) (discretionary and mandatory)	$56,213	$(6,918)
Distributed Offsetting Receipts (-)	(1,548)	-
Agency Outlays, Net (discretionary and mandatory)	**$54,665**	**$(6,918)**

The accompanying notes are an integral part of these statements.

Combined Statement of Budgetary Resources
As of September 30, 2017
(In Millions)

	2017	
	Budgetary	Non-Budgetary Credit Reform Financing Accounts
Budgetary Resources:		
Unobligated Balance From Prior Year Budget Authority, Net	$66,251	$19,395
Appropriations (discretionary and mandatory)	62,218	-
Borrowing Authority (discretionary and mandatory)	-	8,377
Spending Authority from Offsetting Collections	17,510	37,192
Total Budgetary Resources	**$145,979**	**$64,964**
Memorandom (non-add) Entries:		
Net Adjustments to unobligated balance brought forward, Oct 1	$(2,505)	$2,317
Status of Budgetary Resources:		
New Obligations and Upward Adjustments (Total) (Note 21)	$78,648	$39,084
Unobligated Balance, End of Year:		
Apportioned, Unexpired Accounts	7,996	6,751
Unapportioned, Unexpired Accounts	58,485	19,129
Unexpired Unobligated Balance, End of Year	$66,481	$25,880
Expired Unobligated Balance, End of Year	850	-
Unobligated Balance, End of Year (Total)	67,331	25,880
Total Budgetary Resources	**$145,979**	**$64,964**
Outlays, Net:		
Outlays, Net (Total) (discretionary and mandatory)	$56,842	$(8,873)
Distributed Offsetting Receipts (-)	(1,368)	-
Agency Outlays, Net (discretionary and mandatory)	**$55,474**	**$(8,873)**

The accompanying notes are an integral part of these statements.

Notes to the Financial Statements

Notes to Financial Statements
September 30, 2018

Note 1: Summary of Significant Accounting Policies

Reporting Entity

HUD was created in 1965 to: 1) provide housing subsidies for low and moderate-income families; 2) provide grants to states and communities for community development activities; 3) provide direct loans and capital advances for construction and rehabilitation of housing projects for the elderly and persons with disabilities; and 4) promote and enforce fair housing and equal housing opportunity. In addition, HUD insures mortgages for single family and multifamily dwellings, insures loans for home improvements and manufactured homes, and facilitates financing for the purchase or refinancing of millions of American homes.

HUD's major programs, including FHA and Ginnie Mae, were discussed in the Management Discussion and Analysis section (MD&A). Also, FHA and Ginnie Mae are considered consolidating entities to HUD. The other major programs are as follows:

The Section 8 Rental Assistance programs assist low and very low-income families in obtaining decent and safe rental housing. HUD makes up the difference between what a low- and very low income family can afford and the approved rent for an adequate housing unit funded by the HCV Program.

The Low Rent Public Housing Grants program provides grants to PHAs and Tribally Designated Housing Entities (TDHEs) for construction and rehabilitation of low-rent housing. This program is a continuation of the Low Rent Public Housing Loan program which pays principal and interest on long-term loans made to PHAs and TDHEs for construction and rehabilitation of low-rent housing.

The Homeless Assistance Grants fund the formula Emergency Solutions Grant program and the competitive CoC program. Together, these programs fund the activities that comprise communities' homeless crisis response systems.

The CDBG programs provide funds for metropolitan cities, urban counties, and other communities to use for neighborhood revitalization, economic development, disaster recovery assistance, and improved community facilities and services.

The Supportive Housing for the Elderly (Section 202) and Persons with Disabilities (Section 811) grant programs provide capital to nonprofit organizations sponsoring rental housing for the elderly and disabled. Prior to these programs being operated as grants, they were administered as 40-year loans.

The Home Investments Partnerships program provides grants to states, local governments, and Indian tribes to implement local housing strategies designed to increase home ownership and affordable housing opportunities for low- and very low-income families.

HUD also has smaller programs which provide grants, subsidy funding, and direct loans to support other HUD objectives such as fair housing and equal opportunity, energy conservation, rehabilitation of housing units, removal of lead hazards, and maintenance costs of PHA and TDHE housing projects. These smaller programs are also included within the HUD consolidated revenues and financing sources reflected on the financial statements.

Basis of Accounting and Presentation

The accompanying principal financial statements have been prepared to report the financial position, net cost, changes in net position, and budgetary resources of HUD in accordance with the *OMB Circular A-136, Financial Reporting Requirements,* and in conformance with the FASAB's *Statements of Federal Financial Accounting Standards (SFFAS).* In FY 2018, HUD changed the presentation of its funds from dedicated collections on the BS and SCNP from consolidating to combining based on the most recent guidance in the *OMB Circular A-136.*

These financial statements include all the accounts and transactions of HUD to include FHA, Ginnie Mae, and its grant, subsidy, and loan programs. All inter-fund accounts receivable, accounts payable, transfers in, and transfers out within these programs have been eliminated.

The financial statements are presented on the accrual and budgetary basis of accounting. Under the accrual method, HUD recognizes revenues when earned, and expenses when a liability is incurred, without regard to receipt or payment of cash. The budgetary basis of accounting recognizes the obligation of funds according to legal requirements, which in many cases occurs prior to an accrual-based transaction. The use of budgetary accounting is essential for compliance with legal requirements and controls over the use of Federal funds.

The Department's disbursement policy permits grantees/recipients to request funds to meet immediate cash needs to reimburse themselves for eligible incurred expenses and eligible expenses expected to be received and paid within three days or as subsidies payable in accordance with the Cash Management Improvement Act of 1990 (CMIA). The exception is PIH's HCV and Moving to Work programs, where funds are paid on the first day of the month to cover rental expenses for that month.

Use of Estimates

The preparation of the principal financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Amounts reported for net loans receivable, related foreclosed property, and the loan guarantee liability represent the Department's best estimates based on available, pertinent information.

To estimate the Allowance for Subsidy associated with loans receivable, related foreclosed property, and the Liability for Loan Guarantees, the Department uses cash flow model assumptions associated with the loan guarantees subject to the Federal Credit Reform Act of 1990 (FCRA) to estimate the cash flows associated with future loan performance. To make reasonable projections of future loan performance, the Department develops assumptions based on historical data, current and forecasted programs, and economic assumptions.

Certain programs have higher risks due to increased chances of fraudulent activities perpetrated against the Department. The Department accounts for these risks through the assumptions used in the liabilities for loan guarantee estimates. HUD develops the assumptions based on historical performance and management's judgments about future loan performance.

OCFO and PIH worked together to develop an estimation methodology to determine its quarterly Prepayment balances due to timing constraints on obtaining the actual data.

HUD implemented a grant accrual policy and continues to refine its methodologies and the underlying assumptions to develop the estimates. Grant accruals are calculated by the various program areas on a quarterly basis, and recorded in the trial balance to be included in the Financial Statements. The accruals are reversed in a later accounting period.

In third quarter FY 2018, CPD revised its methodology for estimating CDBG-DR accruals. The revised methodology uses a point estimate in conjunction with the program specific unliquidated obligations to determine a ratio. Once this ratio is determined, it is applied to the period in which an accrual is desired to be calculated. Neighborhood Stabilization Program (NSP) was not included in the accrual calculation for FY 2018 due to immaterial amounts of outlays. CPD's grant accrual estimates are statistically validated through annual execution of grantee survey responses.

Entity and Non-Entity Assets

Assets are classified as either entity or non-entity assets. Entity assets are those that HUD has authority to use for its operations. Non-entity assets are those held by HUD but unavailable for use in its operations. Non-entity assets are offset by liabilities to third parties and have no impact on net position. HUD combines its entity and non-entity assets on the balance sheet and discloses its non-entity assets in the notes.

Fund Balance with U.S. Department of the Treasury (Treasury)

HUD maintains all cash accounts with Treasury. Treasury processes cash receipts and disbursements on behalf of HUD, and HUD's accounting records are reconciled with Treasury on a monthly basis. HUD has several types of funds which include General, Revolving, Trust, and other fund types such as deposit and clearing accounts.

Ginnie Mae's cash receipts and disbursements are processed by Treasury. Cash held by Treasury represents the available budget spending authority of Ginnie Mae (obligated and unobligated balances available to finance allowable expenditures). The restricted balances represent amounts restricted for use for specific purposes. Uninvested funds in the Financing Fund consist of Funds with Treasury and/or offsetting collections that have not been disbursed. Prior to 2018, Ginnie Mae earned and collected interest on uninvested funds, which was calculated using the applicable version of the CSC2 provided by the OMB. In September 2018, Treasury clarified rules regarding the collection of interest on uninvested funds in the Financing Account. Based on additional conversations with, and clarifications from, Treasury, Ginnie Mae was not entitled to earn interest on uninvested funds without a signed borrowing agreement in accordance with FCRA. Ginnie Mae is in ongoing discussions with OMB and its legal counsel on whether the Financing Account is fully subject to the provisions of FCRA. As resolution of the matter between Ginnie Mae and OMB is pending, Treasury and Ginnie Mae agreed that Ginnie Mae will not earn and collect interest on uninvested funds in FY 2018. Due to Treasury's new criteria for earning and collecting interest on uninvested funds, no interest income was recognized in FY 2018 as revenue recognition criterion per ASC 605 were not fully met. At present, there is uncertainty regarding applicability of FCRA to Ginnie Mae, and whether Ginnie Mae would be required to repay prior interest income received by Ginnie Mae (amounts, if any, to be determined) or be able to earn interest in the future.

Investments

HUD limits its investments, principally comprised of investments by FHA's MMI/CMHI Fund and Ginnie Mae, to non-marketable market-based Treasury interest-bearing obligations (i.e., investments not sold in public markets). The market value and interest rates established for such investments are the same as those for similar Treasury issues, which are publicly marketed.

HUD's investment decisions are limited to Treasury policy which: 1) only allows investment in Treasury notes, bills, and bonds; and 2) prohibits HUD from engaging in practices that result in "windfall" gains and profits, such as security trading and full-scale restructuring of portfolios in order to take advantage of interest rate fluctuations.

FHA's normal policy is to hold investments in U.S. Government securities to maturity. However, in certain circumstances, FHA may have to liquidate its U.S. Government securities before maturity.

HUD reports investments in U.S. Government securities at amortized cost. Premiums or discounts are amortized into interest income over the term of the investment. HUD intends to hold investments to maturity, unless needed for operations. No provision is made to record unrealized gains or losses on these securities, because in most cases, they are held to maturity.

Credit Program Receivables and Related Foreclosed Property

HUD finances mortgages and provides loans to support construction and rehabilitation of low-rent housing, principally for the elderly and disabled under the Section 202/811 program. FHA's loans receivable includes Mortgage Notes Assigned (MNAs), also described as Secretary-held notes, Purchase Money Mortgages (PMM), notes related to partial claims, and direct loans relating to the Federal Financing Bank (FFB) Risk Share Program. Under the requirements of the FCRA, PMM notes are considered to be direct loans while MNA notes are considered to be defaulted guaranteed loans. The PMM loans are generated from the sales on credit of FHA's foreclosed properties to qualified non-profit organizations. The MNA notes are created when FHA pays the lenders for claims on defaulted guaranteed loans and takes assignment of the defaulted loans for direct collections. The majority of MNAs are HECM notes. HECM loans, while not in default, are assigned to HUD when they reach 98% of their maximum claim amount. In addition, multifamily mortgages are assigned to FHA when lenders file mortgage insurance claims for defaulted notes.

Credit program receivables for direct loan programs and defaulted guaranteed loans assigned for direct collection are valued differently based on the direct loan obligation or loan guarantee commitment date. These valuations are in accordance with the FCRA and *SFFAS No. 2,* *Accounting for Direct Loans and Loan Guarantees,* as amended by *SFFAS No. 18 Amendments to Accounting Standards For Direct Loans and Loan Guarantee in Statement of Federal Financial Accounting Standards No. 2.* Those obligated or committed on or after October 1, 1991 (post-Credit Reform) are valued at the net present value of expected cash flows associated with these assets, primarily from estimated proceeds less selling and maintenance costs. The difference between the cost of these loans and properties and the net present value is called the Allowance for Subsidy. Pre-Credit Reform loans receivable and related foreclosed property in inventory are recorded at net realizable value which is based on recovery rates net of any selling expenses (Note 7).

Credit program receivables resulting from obligations or commitments prior to October 1, 1991, (pre-Credit Reform) are recorded at the lower of cost or fair value (net realizable value). Fair value is estimated based on the prevailing market interest rates at the date of mortgage assignment. When fair value is less than cost, discounts are recorded and amortized to interest income over the remaining terms of the mortgages or upon sale of the mortgages. Interest is recognized as income when earned. However, when full collection of principal is considered doubtful, the accrual of interest income is suspended and receipts (both interest and principal) are recorded as collections of principal. Pre-Credit Reform loans are reported net of allowance for loss and any unamortized discount. The estimate for the allowance on credit program receivables is based on historical loss rates and recovery rates resulting from asset sales, property recovery rates, and net cost of sales.

Foreclosed property acquired as a result of defaults of loans obligated or loan guarantees committed on or after October 1, 1991, is valued at the net present value of the projected cash flows associated with the property. Foreclosed property acquired as a result of defaulted loans obligated or loan guarantees committed prior to 1992 is valued at net realizable value. The estimate for the allowance for loss related to the net realizable value of foreclosed property is based on historical loss rates and recovery rates resulting from property sales, and net cost of sales.

Credit Reform Accounting

The primary purpose of the FCRA, which became effective on October 1, 1991, is to more accurately measure the cost of Federal credit programs and to place the cost of such credit programs on a basis equivalent with other Federal spending. *OMB Circular A-11, Preparation, Execution, and Submission of the Budget Part 5,* titled Federal Credit Programs, defines loan guarantee as any guarantee, insurance or other pledge with respect to the payment of all or part of the principal or interest on any debt obligation of a non-Federal borrower (Issuer) to a non-Federal lender (Investor).

The FCRA establishes the use of the program, financing, and general fund receipt accounts for loan guarantees committed and direct loans obligated after September 30, 1991, (Credit Reform). It also establishes the liquidating account for activity relating to any loan guarantees committed and direct loans obligated before October 1, 1991, (pre-Credit Reform). These accounts are classified as either budgetary or non-budgetary in the *Combined Statement of Budgetary Resources.* The budgetary accounts include the program, capital reserve and liquidating accounts, whereas the non-budgetary accounts consist of the credit reform financing accounts.

The program account is a budget account that receives and obligates appropriations to cover the subsidy cost of a direct loan or loan guarantee and disburses the subsidy cost to the financing account. The program account also receives appropriations for administrative expenses. The financing account is a non-budgetary account that records all cash flows resulting from Credit Reform direct loans or loan guarantees. It disburses loans, collects repayments and fees, makes claim payments, holds balances, borrows from Treasury, earns or pays interest, and receives the subsidy cost payment from the program account.

The general fund receipt account is a budget account used for the receipt of amounts paid from the financing account when there are negative subsidies from the original estimate or a downward re-estimate. In most cases, the receipt account is a general fund receipt account and amounts are not earmarked for the credit program. They are available for appropriations only in the sense that all general fund receipts are available for appropriations. Any assets in this account are non-entity assets and are offset by intragovernmental liabilities. At fiscal year end, the fund balance in the general fund receipt account is transferred to Treasury's General Fund. The FHA general fund receipt accounts for the GI and SRI funds are in this category.

The capital reserve account was created to retain the MMI /CMHI negative subsidy and subsequent downward re-estimates. Specifically, the National Affordable Housing Act of 1990 (NAHA) requires that FHA maintain a 2% Capital Ratio in the MMI Fund. The Capital Ratio is defined as the ratio of economic net worth (current cash plus the present value of all future net cash flows) of the MMI fund to unamortized insurance in force (the unpaid balance of insured mortgages). Therefore, to ensure the calculated capital ratio reflects the actual strength of the MMI fund, the resources of the capital reserve account, which are considered FHA assets, are included in the calculation of the MMI fund's economic net worth.

The liquidating account is a budget account that records all cash flows to and from FHA resulting from pre-Credit Reform direct loans or loan guarantees. Liquidating account collections in any year are only available for obligations incurred during that year or to repay debt. Unobligated balances remaining in the GI and SRI liquidating funds at year-end are transferred to Treasury's General Fund. Consequently, in the event that resources in the GI/SRI liquidating account are otherwise insufficient to cover the payments for obligations or commitments, the FCRA provides the GI/SRI liquidating account with permanent indefinite authority to cover any resource shortages.

Property, Plant, and Equipment, Net

Property, Plant, and Equipment, Net (PP&E) is composed of capital assets used in providing goods or services. PP&E is stated at cost less accumulated depreciation. Acquisitions of PP&E include assets purchased or assets acquired through other means, such as through transfer in from another Federal entity, donation, devise (a will or clause of a will disposing of property), judicial process, exchange between a Federal entity and a non-Federal entity, and forfeiture.

Liabilities

Liabilities represent actual and estimated amounts to be paid as a result of transactions or events that have already occurred. However, no liabilities can be paid by HUD without budget authority. Liabilities for which an appropriation has not been enacted are classified as liabilities not covered by budgetary resources, and there is no certainty that an appropriation will be enacted.

Borrowings

As further discussed in other notes, several of HUD's programs have the authority to borrow funds from Treasury for program operations. These borrowings, representing unpaid principal balances and future accrued interest, are reported as debt in HUD's consolidated financial statements. The Department also borrowed funds from the private sector to assist in the construction and rehabilitation of low rent housing projects under the PIH Low Rent Public Housing Loan Program. Repayments of these long-term borrowings have terms up to 40 years.

Liability for Loan Guarantees

The net potential future losses related to FHA's central business of providing mortgage insurance are accounted for as Loan Guarantee Liability in the consolidated balance sheets. As required by SFFAS No. 2, the Loan Guarantee Liability includes the Credit Reform Related Liabilities for LLG and the pre-Credit Reform LLR.

The LLG is calculated as the net present value of anticipated cash outflows for defaults, such as claim payments, premium refunds, property costs to maintain foreclosed properties less anticipated cash inflows such as premium receipts, proceeds from asset sales and principal, and interest on Secretary-held notes.

HUD records loss estimates for its single-family LLR and multifamily LLR mortgage insurance programs operated through FHA. FHA records loss estimates for its single-family programs to provide for anticipated losses incurred (e.g., claims on insured mortgages where defaults have taken place, but claims have not yet been filed). FHA values its Pre-Credit Reform related notes and properties in inventory at net realizable value, determined on the basis of net cash flows. To value these items, FHA uses historical claim data, revenues from premiums and recoveries, and expenses of selling and maintaining properties.

Ginnie Mae also establishes loss reserves to the extent that management believes issuer defaults are probable and FHA, USDA, and PIH insurance or guarantees are insufficient to recoup Ginnie Mae expenditures. Ginnie Mae also maintains an allowance for probable incurred losses related to non-pooled mortgage loans. The allowance for loan losses involves significant management judgment and estimates of credit losses inherent in the mortgage loan portfolio.

Federal Employees Compensation Act Liabilities

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to covered federal civilian employees injured on the job, employees who have incurred a work-related injury or occupational disease, and to beneficiaries of employees whose deaths are attributable to job-related injuries or occupational diseases. The FECA program is administered by the U.S. Department of Labor (DOL), which pays valid claims and subsequently seeks reimbursement from HUD for these paid claims.

The FECA liability consists of two components. The first component is based on actual claims paid by the DOL but not yet reimbursed by HUD. The second component is the estimated liability for future worker's compensation as a result of past events. HUD reports both components in "Other Liabilities" on the Consolidated Balance Sheet.

Accrued Unfunded Leave

Annual leave and compensatory time are accrued as earned and the liability is reduced as leave is taken. The liability at year-end reflects cumulative leave earned but not taken, priced at current wage rates. Earned leave deferred to future periods is to be funded by future appropriations. To the extent that current or prior year appropriations are not available to fund annual leave earned but not taken, funding will be obtained from future financing sources. Sick leave and other types of leave are expensed as taken.

Operating Revenue and Financing Sources

HUD finances operations principally through appropriations, collection of premiums and fees on its FHA and Ginnie Mae programs, and interest income on its mortgage notes, loans, and investment portfolio.

Appropriations for Grant and Subsidy Programs

HUD receives both annual and multi-year appropriations and recognizes those appropriations as revenue when related expenses are incurred. Accordingly, HUD recognizes grant-related revenue and related expenses as recipients perform under their contracts. HUD recognizes subsidy-related revenue and related expenses when the underlying assistance (e.g., provision of a Section 8 rental unit by a housing owner) is provided or upon disbursal of funds to PHAs.

Ginnie Mae Fees

Fees received for Ginnie Mae's guaranty of MBS are recognized as earned. Commitment fees represent income that Ginnie Mae earns for providing approved issuers with authority to pool mortgages into Ginnie Mae MBS. The authority Ginnie Mae provides issuers expires 12 months from issuance for single family issuers and 24 months from issuance for multifamily issuers. Ginnie Mae receives commitment fees as issuers request commitment authority and recognizes the commitment fees as earned as issuers use their commitment authority, with the balance deferred until earned or expired (whichever occurs first). Fees from expired commitment authority are not returned to issuers.

Imputed Financing Sources

In certain instances, operating costs of HUD are paid out of funds appropriated to other Federal agencies. For example, the Office of Personnel Management (OPM), by law, pays certain costs of retirement programs. When costs that are identifiable to HUD and directly attributable to HUD operations are paid for by other agencies, HUD recognizes these amounts as operating expenses. In addition, HUD recognizes an imputed financing source on the Consolidated Statement of Changes in Net Position to reflect the funding of HUD operations by other Federal agencies.

Appropriations and Monies Received from Other HUD Programs

The National Housing Act of 1990, as amended, provides for appropriations from Congress to finance the operations of GI/SRI funds. For Credit Reform loan guarantees, appropriations to the GI and SRI funds are provided at the beginning of each fiscal year to cover estimated losses on insured loans during the year. For pre-Credit Reform loan guarantees, FHA has permanent, indefinite appropriation authority to finance any shortages of resources needed for operations.

Monies received from other HUD programs, such as interest subsidies and rent supplements, are recorded as revenue for the liquidating accounts when services are rendered. Monies received for the financing accounts are recorded as additions to the Liability for Loan Guarantee or the Allowance for Subsidy when collected.

Full Cost Reporting

SFFAS No. 4, Managerial Cost Accounting Concepts and Standards, for the Federal Government, requires that full costing of program outputs be included in Federal agency financial statements. Full cost reporting includes direct, indirect, and inter-entity costs. For purposes of the consolidated department financial statements, HUD estimated each responsible segment's share of the program costs or resources provided by HUD or other Federal agencies.

Retirement Plans

HUD's employees participate in either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). FERS went into effect pursuant to Public Law 99-335 on January 1, 1987. Most employees hired after December 31, 1983, are automatically covered by FERS and Social Security. Employees hired before January 1, 1984, can elect to either join FERS and Social Security or remain in CSRS. HUD expenses its contributions to the retirement plans.

A primary feature of FERS is that it offers a savings plan whereby HUD automatically contributes 1% of pay and matches any employee contribution up to 5% of an individual's basic pay. Under CSRS, employees can contribute up to $18,500 per year of their pay to the savings plan, but there is no corresponding matching by HUD. Although HUD funds a portion of the benefits under FERS relating to its employees and makes the necessary withholdings from them, it has no liability for future payments to employees under these plans, nor does it report CSRS or FERS assets, accumulated plan benefits, or unfunded liabilities applicable to its employees' retirement plans.

Fiduciary Activities

Fiduciary activities are the collection or receipt, and the management, protection, accounting, investment, and disposition by the Federal Government of cash or other assets in which non-Federal individuals or entities have an ownership interest that the Federal Government must uphold. Fiduciary assets are not assets of the Federal Government.

Ginnie Mae has immaterial fiduciary activities which involve the collection or receipt and subsequent disposition of cash in which non-Federal entities have an ownership interest. Fiduciary assets are not assets of Ginnie Mae or the Federal Government. The fiduciary assets held by Ginnie Mae include unclaimed MBS Certificate Holders payments and escrow funds held in trust. These amounts were $31 million (estimated) and $39 million at September 30, 2018 and 2017, respectively.

Net Cost

Net cost consists of gross costs and earned revenue. Gross costs and earned revenue are classified as intragovernmental (exchange transactions between HUD and other entities within the Federal Government) or public (exchange transactions between HUD and non-Federal entities).

Net program costs are gross costs less revenue earned from activities. HUD determines gross cost and earned revenue by tracing amounts back to the specific program office. Administrative overhead costs of funds unassigned are allocated based on full-time employee equivalents of each program.

Net Position

Net position consists of unexpended appropriations and cumulative results of operations. Unexpended appropriations include undelivered orders and unobligated balances, except for amounts in financing accounts, liquidating accounts, and trust funds. Cumulative results of operations represent the net difference since inception between: 1) expenses; and 2) revenues and financing sources.

Funds from Dedicated Collections

Funds from Dedicated Collections are financed by specifically identified revenues, often supplemented by other financing sources that are originally provided to the Federal Government by a non-Federal source, which remain available over time. These specifically identified revenues and other financing sources are required by statute to be used for designated activities, benefits, or purposes, and must be accounted for separately from the Federal Government's general revenues.

Allocation Transfers

HUD is a party to allocation transfers with other Federal agencies as a transferring (parent) entity and/or a receiving (child) entity. Allocation transfers are legal delegations by one department of its authority to obligate budget authority and outlay funds to another department. A separate fund account (allocation account) is created in Treasury as a subset of the parent fund account for tracking and reporting purposes. All allocation transfers of balances are credited to this account, and subsequent obligations and outlays incurred by the child entity are charged to this allocation account as they execute the delegated activity on behalf of the parent entity. Parent agencies report both the proprietary and budgetary activity, but the child agency does not report any financial activity related to budget authority allocated from the parent agency to the child agency. HUD is the child for two allocation transfers, the Appalachian Regional Commission and the

Department of Transportation. *Under SFFAS No. 47 Reporting Entity,* HUD does not consider the parent agency as a disclosure entity or a related party. HUD provides financial information to the parent agency monthly to facilitate their reporting consolidation.

Reclassifications

FY 2018 presentation changes on the Financial Statements (FS) and Financial Notes (Notes) have been made to gain a greater understanding of HUD's financial position. Certain prior year amounts have been reclassified to align with the revised July 2018 *OMB Circular A-136.* For further information regarding FHA and Ginnie Mae reclassifications, please refer to the standalone *FY 2018 Annual Report* for each.

Note 2: Non-Entity Assets

Non-entity assets consist of assets that belong to other entities but are included in the HUD consolidated financial statements and are offset by various liabilities to accurately reflect the Department's net position. The Department's non-entity assets principally consist of: 1) escrow monies collected by FHA that are either deposited at Treasury or in minority-owned banks or invested in Treasury securities; and 2) cash remittances from Section 8 bond refunding deposited in the General Fund of the Treasury.

HUD's non-entity assets as of September 30, 2018 and 2017, were as follows:

(In Millions)	2018	2017 (Restated)[17]
Intragovernmental		
Fund Balance with Treasury	$26	$32
Total Intragovernmental	**$26**	**$32**
Public		
Cash and Other Monetary Assets	$22	$27
Accounts Receivable, Net	302	275
Loan Receivables and Related Foreclosed Property, Net	15	74
Total Public	**$339**	**$376**
Total Non Entity Assets	$365	$408
Total Entity Assets[17a]	198,025	163,040
Total Assets	**$198,390**	**$163,448**

[17] FHA corrected a discounting rate error in its Homeowners Equity Conversion Mortgage (HECM) Return on Assets (ROA) cash flow model. In the published 2017 Agency Financial Report (AFR) this Note was understated by $1,696 million.

[17a] The error impacted the "Total Entity Assets" line; the line amount increased from $161,342 million to $163,040 million.

Note 3: Fund Balance with Treasury

The Treasury performs cash management activities for all Federal agencies. The net activity represents Fund Balance with Treasury. HUD's fund balances by fund type as of September 30, 2018 and 2017, were as follows:

(In Millions)	2018	2017 (Restated)[18]
Status of Fund Balance with Treasury		
Unobligated Balance		
Available[18a]	$47,821	$14,161
Unavailable[18b]	24,142	31,055
Obligated Balance not yet Disbursed[18c]	52,149	43,582
Non-Budgetary FBWT	21	26
Total	**$124,133**	**$88,824**

The Department's Fund Balance with Treasury includes receipt accounts established under current Federal Credit Reform legislation and cash collections deposited in restricted accounts that cannot be used by HUD for its programmatic needs. These designated funds established by the Department of Treasury are classified as suspense and/or deposit funds and consist of accounts receivable balances due from the public. An SBR is not prepared for these funds since any cash remittances received by the Department are not defined as budgetary resources.

In addition to fund balance, contract and investment authority are also a part of HUD's funding sources. Contract authority permits an agency to incur obligations in advance of an appropriation, offsetting collections, or receipts to make outlays to liquidate the obligations. HUD has permanent, indefinite contract authority. Since Federal securities are considered the equivalent of cash for budget purposes, investments in them are treated as a change in the mix of assets held, rather than as a purchase of assets. Obligated and unobligated balances reported for the status of Fund Balance with Treasury do not agree with obligated and unobligated balances reported in the Combined SBR. The budgetary balances are also supported by amounts other than Fund Balance with Treasury, such as investments, borrowings authority, and budgetary receivables. Additionally, the unobligated balances include collections related to Ginnie Mae which are not available to HUD unless approved by Congress.

[18] HUD corrected its accounting standard general ledger crosswalk to align with Treasury's crosswalk for this Note. These corrections resulted in reclassifications between Unobligated Balance Available, Unobligated Balance Unavailable, and Obligated Balance not yet Disbursed lines. The overall impact did not change the 2017 "Total" line.

[18a] The Unobligated Balance Available line decreased from $14,637 million to $14,161 million with a net effect of ($476 million).

[18b] The Unobligated Balance Unavailable line decreased from $31,130 million to $31,055 million with a net effect of ($75 million).

[18c] The Obligated Balance not yet Disbursed line increased from $43,031 million to $43,582 million with a net effect of $551 million.

An immaterial difference exists between HUD's recorded Fund Balances with Treasury and Treasury's records. Consistent with Treasury's guidance, the Department temporarily adjusts its records to agree with Treasury's balances at the end of the accounting period. The adjustments are reversed at the beginning of the following accounting period.

In FY 2017, HUD implemented a project which identify differences between the general ledger and sub-ledger balances. As of September 30, 2018, HUD has resolved, researched and analyzed, a significant amount of current and historical balances.

Note 4: Cash and Other Monetary Assets

Cash and other monetary assets of FHA consist of: 1) escrow monies collected that are deposited in minority-owned banks, 2) deposits in transit, and 3) advances and prepayments. As of September 30, 2018, escrow monies and deposits in transit were $22 million and $12 million, respectively. As of September 30, 2017, escrow monies and deposits in transit were $27 million and $14 million, respectively.

Cash and other monetary assets of Ginnie Mae consist of cash that is received by its Master Sub servicers but has not yet been transmitted to Ginnie Mae. As of September 30, 2018, and 2017, deposits in transit were $33 million and $40 million respectively.

Note 5: Investments

The U.S. Government non-marketable intra-governmental securities are comprised of short-term securities. Short-term securities have an original maturity date of less than one year. The amortized cost and estimated market value of investments in debt securities as of September 30, 2018 and 2017, were as follows:

(In Millions)	Cost	Amortized (Premium)/ Discount Net	Accrued Interest	Net Investments	Market Value
FY 2018	$42,754	$236	$2	$42,992	$42,971
FY 2017	$48,020	$51	$47	$48,118	$48,023

Investments in Private-Sector Entities

Investments in private-sector entities are the result of FHA's Risk Sharing Debentures as discussed in Note 1.

The following table presents financial data on FHA's investments in Risk Sharing Debentures and securities held outside Treasury as of September 30, 2018 and 2017:

(In Millions)	Beginning Balance	Net Acquisitions	Share of Earnings or Loss	Return of Investment	Redeemed	Ending Balance
2018						
Securities Held Outside of Treasury	$13	$-	$-	$-	$(13)	$-
601 Program	-	-	-	-	-	-
Risk Sharing Debentures	31	-	(17)	-	(6)	8
Total	**$44**	**$-**	**$(17)**	**$-**	**$(19)**	**$8**
2017 (Restated)[19]						
Securities Held Outside of Treasury[19a]	$-	$13	$-	$-	$-	$13
601 Program	-	-	-	-	-	-
Risk Sharing Debentures[19b]	31	-	-	-	-	31
Total	**$31**	**$13**	**$-**	**$-**	**$-**	**$44**

Note 6: Accounts Receivable, Net

The Department's Accounts Receivable represents FHA Partial Claims and Generic Debt Receivables, Ginnie Mae Fees and Interest Receivables, and Other Receivables. FHA Partial Claims are paid to mortgagees as part of its loss mitigation efforts to bring delinquent loans current for which FHA does not yet have the promissory note recorded. The Generic Debt is mainly comprised of receivables from various sources, the largest of which are Single Family Claims, Single Family Indemnification, and Single-Family Restitutions. Ginnie Mae Fees consists of accrued guaranty fees and accrued interest on uninvested funds. Interest Receivable are accruals of interest on mortgage loans Held For Investment (HFI) at the contractual rate and records an allowance on accrued interest to the extent that it is probable that interest will not be recoverable per insurance guidelines for insured loans and is uncollectable for conventional loans.

[19] HUD reclassified its amount in the Risk Sharing Debentures line to its Securities Held Outside of Treasury line under Net Acquisitions column to align with FHA's FY 2017 Note 5 Investments.
[19a] The Securities Held Outside of Treasury line increased from $0 to $13 million for the Net Acquisitions.
[19b] The Risk Sharing Debentures line decreased from $13 million to $0 for the Net Acquisitions.

A 100% allowance for loss is established for all delinquent accounts 90 days and over for bond refunding. The allowance for loss methodology adjusts the total delinquencies greater than 90 days by the effects of economic stress factors, which include likely payoffs, foreclosures, bankruptcies, and hardships of the project. Adjustments to the bond refunding allowance for loss account are done every quarter to ensure they are deemed to be necessary.

For Section 236 excess rental income, the allowance for loss consists of 10% of the receivables with a repayment plan plus 95% of the receivables without a repayment plan. Adjustments to the excess rental income allowance for loss account are done biannually to ensure they are deemed necessary.

Other Receivables

Other Receivables represents Section 8 year-end settlements, claims to cash from the public, state and local authorities for bond refunding, Section 236 excess rental income, sustained audit findings, refunds of overpayment, FHA insurance premiums, and foreclosed property proceeds. Sustained audit costs include sustained audit findings, refunds of overpayment, settlements receivable, and foreclosed property proceeds due from the public.

The following shows accounts receivable as reflected on the Balance Sheet as of September 30, 2018 and 2017:

	2018			2017		
(In Millions)	Gross Accounts Receivable	Allowance for Loss	Total, Net	Gross Accounts Receivable	Allowance for Loss	Total, Net
Intragovernmental	$-	$-	$-	$-	$-	$-
Public						
FHA Partial Claims and Generic Debt Receivables[20]	$343	$(206)	$137	$529	$(309)	$220
Ginnie Mae Fees and Interest Receivables	200	(43)	157	226	(69)	157
Other Receivables	355	(1)	354	350	(1)	349
Total Accounts Receivable	**$898**	**$(250)**	**$648**	**$1,105**	**$(379)**	**$726**

[20] Due to a shift in activity in FHA's receivables, the FHA Partial Claims and Settlement Receivables title changed to FHA Partial Claims and Generic Debt Receivables for FY 2017 and 2018.

Note 7: Direct Loans and Loan Guarantees, Non-Federal Borrowers

HUD reports direct loan obligations or loan guarantee commitments made prior to FY 1992 and the resulting direct loans or defaulted guaranteed loans, net of allowance for estimated uncollectible loans or estimated losses.

FHA encourages homeownership through its Single-Family Forward programs (Section 203(b), which is the largest program, and Section 234) by making loans readily available with its mortgage insurance programs. These programs insure mortgage lenders against losses from default, enabling those lenders to provide mortgage financing on favorable terms to homebuyers. Multifamily Housing Programs (Section 213, Section 221(d)(4), Section 207/223(f), and Section 223(a)(7)) provide FHA insurance to approved lenders to facilitate the construction, rehabilitation, repair, refinancing, and purchase of multifamily housing projects such as apartment rentals, and cooperatives. Healthcare programs (Section 232 and Section 242) enable low-cost financing of health care facility projects and improve access to quality healthcare by reducing the cost of capital.

The FHA also insures HECM, also known as reverse mortgages. These loans are used by senior homeowners age 62 and older to convert the equity in their home into monthly streams of income and/or a line of credit to be repaid when they no longer occupy the home. Unlike ordinary home equity loans, a HUD reverse mortgage does not require repayment as long as the home is the borrower's principal residence.

The FHA also administers the HOPE for Homeowners (H4H) program. The program was established by Congress to help those at risk of default and foreclosure refinance into more affordable, sustainable loans.

For FHA foreclosed property the average number of days in inventory for sold cases is 136 days in FY 2018 and 146 days in FY 2017. The total number of foreclosed properties on-hand as September 30, 2018 is 7,968 and as of September 30, 2017 was 11,205. Foreclosed properties are primarily Single-Family properties.

Defaulted Guaranteed Loans (Pre-92 and Post-91)-Restrictions on the use/disposal of foreclosed property:

The balance relating to foreclosures as of September 30, 2018 is comprised of only Single Family properties. There are no Multifamily properties currently in inventory.

The Secretary has the authority under the National Housing Act (12 U.S.C §1710(g)) to manage or dispose of eligible HUD-owned property assets in a manner that will provide affordable, safe and sanitary housing to low-wealth families, preserve and revitalize residential neighborhoods, expand homeownership opportunities, minimize displacement of tenants residing in rental or cooperative housing, and protect the financial interest of the Federal Government.

Single Family properties may be sold to eligible entities (24 Code of Federal Regulations (CFR) §291.303) through public asset sales. Eligibility of bidders will be determined by the Secretary and included in the bid package with a notice filed in the Federal Register. In addition, HUD must ensure that its policies and practices in conducting the single family property disposition program do not discriminate on the basis of disability (24 CFR §9.155(a)).

The allowance for loan losses for the Flexible Subsidy Fund and the Housing for the Elderly and Disabled Program is determined as follows:

Flexible Subsidy Fund

There are four parts to the calculation of allowance for loss: Part one is the Loss rate for loans written-off; Part two is the Loss rate for restructured loans; Part three is the Loss rate for loans paid-off; and Part four is the Loss rate for loans delinquent or without repayment activity for 30 years. Loss rates for Parts one and three are based on actual historical data derived from the previous three years. The loss rates for Parts two and four are provided by or agreed to by the Housing Office of Evaluation.

Housing for the Elderly and Disabled Program

There are three parts to the calculation of allowance for loss: Part one is the Loss rate for loans issued a Foreclosure Hearing Letter; Part two is the Loss rate for the estimated number of foreclosures in the current year; and Part three is the Loss rate for loans delinquent for more than 180 days. Loss rates for Parts one and two are determined by actual historical data from the previous five years. Loss rates for Part three are determined or approved by the Housing Office of Evaluation.

Direct loan obligations or loan guarantee commitments made after FY 1991, and the resulting direct loans or defaulted guaranteed loans, are governed by the FCRA and are recorded as the net present value of the associated cash flows (i.e., interest rate differential, interest subsidies, estimated delinquencies and defaults, fee offsets, and other cash flows).

The subsidy rates disclosed pertain only to the current year's cohorts. These rates cannot be applied to the direct loans and guarantees of loans disbursed during the current reporting year to yield the subsidy expense. The subsidy expense for new loans and loan guarantees reported in the current year result from disbursement of loans from both current year cohorts and prior year(s) cohorts. The subsidy expense reported in the current year also includes modifications and re-estimates.

Direct Loan Programs

In FY 2015, FHA began a FFB Risk Sharing Program, an inter-agency partnership between HUD, FFB, and the Housing Finance Authorities (HFAs). The FFB Risk Sharing program provides funding for multifamily mortgage loans insured by FHA. Under this program, FHA records a direct loan from the public and borrowing from FFB. The program does not change the basic structure of Risk Sharing Program; it only substitutes FFB as the funding source. The HFAs would originate and service the loans and share in any losses.

Prior to FY 2015, FHA's Direct Loans were a result of PMMs. The Direct loan receivables were primarily multifamily loans and are in the liquidating fund. In addition, FHA has a small amount of new PMMs that are administered by Single Family Housing. Due to the small size, there is no subsidy associated with these loans.

FHA's net direct loans receivable is not the same as the proceeds that would be anticipated from the sale of its direct loans.

FHA's technical re-estimate amounts for loan guarantee liabilities reflected in loan guarantee liability tables may have a reconciling difference due to the inclusion of the interest expense component in its Schedule of Reconciling Loan Guarantee Liability balances. The following is an analysis of loan receivables, loan guarantees, liability for loan guarantees, and the nature and amounts of the subsidy costs associated with the loans and loan guarantees for September 30, 2018 and 2017:

A. List of HUD's Direct Loan and/or Guarantee Programs:

1. FHA operates these programs primarily through the insurance funds: Mutual Mortgage Insurance (MMI), General Insurance (GI), Special Risk Insurance (SRI), Cooperative Management Housing, Hope for Housing (H4H), and Home Equity Conversation Mortgage (HECM), with MMI fund being the largest.

   a) MMI/CMHI Direct Loan Program

   b) GI/SRI Direct Loan Program

   c) MMI/CMHI Loan Guarantee Program

d) GI/SRI Loan Guarantee Program

e) H4H Loan Guarantee Program

f) HECM Loan Guarantee Program

2. Housing for the Elderly and Disabled – provides funding to develop and subsidize rental housing with the availability of supportive services for very low-income elderly and adults with disabilities.

3. All Other:

a) **CPD Revolving Fund:** Provides a single fund to assist in the efficient liquidation of assets acquired under various housing and urban development programs.

b) **Flexible Subsidy Fund:** Federal aid for troubled multifamily housing projects, as well as capital improvement funds for both troubled and stable subsidized projects.

c) **Section 108 Loan Guarantees:** Loan guarantee provision of the CDBG program. Under this section, HUD offers communities a source of financing for certain community development activities, such as housing rehabilitation, economic development, and large-scale physical development projects.

d) **Indian Housing Loan Guarantee Fund:** Established in 1992 to facilitate homeownership and increase access to capital in Native American Communities. A home mortgage product specifically designed for American Indian and Alaska Native families, Alaska villages, tribes, or tribally designated housing entities.

e) **Loan Guarantee Recovery Fund:** Provides certain nonprofit organizations with a source of financing to rebuild property damaged or destroyed by acts of arson or terrorism.

f) **Native Hawaiian Housing Loan Guarantee Fund:** Established in 2000 to facilitate homeownership on Hawaiian home lands. The Section 184A Native Hawaiian Housing Loan Guarantee program is a mortgage product specifically for Native Hawaiians on Hawaiian home lands.

g) **Title VI Indian Housing Loan Guarantee Fund:** Assists Indian Housing Block Grant (IHBG) recipients in financing additional construction or development, including new housing, rehabilitation, infrastructure, community facilities, land acquisition, architectural and engineering plans, and financing costs.

h) **Green Retrofit Direct Loan Program:** Grants and loans were made available to eligible property owners to make energy and green retrofit investments in property and to maintain energy efficient technologies.

i) **Emergency Homeowners' Loan Program:** Provides mortgage payment relief to eligible homeowners experiencing a drop-in income of at least 15% directly resulting from involuntary unemployment or underemployment due to adverse economic conditions and/or a medical emergency.

B. Direct Loans Obligated Prior to FY 1992 (Allowance for Loss Method)

Direct Loan Programs (In Millions)	2018				
	Loans Receivable, Gross	Interest Receivable	Allowance for Loan Losses	Foreclosed Property	Value of Assets Related to Direct Loans
FHA					
b) GI/SRI Direct Loan Program	$8	$14	$(4)	$-	$18
Housing for the Elderly and Disabled	$788	$11	$(9)	$-	$790
All Other					
a) CPD Revolving Fund	$-	$-	$-	$1	$1
b) Flexible Subsidy Fund	340	49	(37)	-	352
Total	**$1,136**	**$74**	**$(50)**	**$1**	**$1,161**

Direct Loan Programs (In Millions)	2017				
	Loans Receivable, Gross	Interest Receivable	Allowance for Loan Losses	Foreclosed Property	Value of Assets Related to Direct Loans
FHA					
b) GI/SRI Direct Loan Program	$8	$13	$(4)	$-	$17
Housing for the Elderly and Disabled	$954	$12	$(7)	$3	$962
All Other					
a) CPD Revolving Fund	$5	$-	$(5)	$2	$2
b) Flexible Subsidy Fund	368	53	(42)	-	379
Total	**$1,335**	**$78**	**$(58)**	**$5**	**$1,360**

C. Direct Loans Obligated After-1991

Direct Loan Programs (In Millions)	2018				
	Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Costs (Present Value)	Foreclosed Property	Value of Assets Related to Direct Loans
FHA					
a) MMI/CHMI Direct Loan Program	$-	$-	$-	$-	$-
b) GI/SRI Direct Loan Program	1,666	4	203	-	1,873
All Other					
a) Green Retrofit Program	$51	$1	$(42)	$-	$10
b) Emergency Homeowners' Relief Fund	2	-	(4)	-	(2)
c) EHLP Assigned Loans Receipt Account	15	-	-	-	15
Total	**$1,734**	**$5**	**$157**	**$-**	**$1,896**

Direct Loan Programs (In Millions)	2017				
	Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Costs (Present Value)	Foreclosed Property	Value of Assets Related to Direct Loans
FHA					
a) MMI/CHMI Direct Loan Program	$-	$-	$-	$-	$-
b) GI/SRI Direct Loan Program	1,192	3	37	-	1,232
All Other					
a) Green Retrofit Program	$54	$1	$(54)	$-	$1
b) Emergency Homeowners' Relief Fund	18	-	(19)	-	(1)
c) EHLP Assigned Loans Receipt Account	75	-	-	-	75
Total	**$1,339**	**$4**	**$(36)**	**$-**	**$1,307**

D. Total Amount of Direct Loans Disbursed (Post-1991)

Direct Loan Programs (In Millions)	Current Year	Prior Year
FHA Risk Sharing Program	$473	$639
All Other		
a) Green Retrofit Program	$-	$-
b) Emergency Homeowners' Relief Fund	-	-
Total	**$473**	**$639**

E. Subsidy Expense for Direct Loans by Program and Component

1. Subsidy Expense for New Direct Loans Disbursed

Direct Loan Programs (In Millions)	2018				
	Interest	Defaults	Fees	Other	Total
FHA Risk Sharing Program	$(76)	$-	$17	$18	$(41)
All Other					
a) Green Retrofit Program	$-	$-	$-	$-	$-
b) Emergency Homeowners' Relief Fund	-	-	-	-	-
Total	**$(76)**	**$-**	**$17**	**$18**	**$(41)**

Direct Loan Programs (In Millions)	2017				
	Interest	Defaults	Fees	Other	Total
FHA Risk Sharing Program	$(76)	$1	$(18)	$21	$(72)
All Other					
a) Green Retrofit Program	$-	$-	$-	$-	$-
b) Emergency Homeowners' Relief Fund	-	-	-	-	-
Total	**$(76)**	**$1**	**$(18)**	**$21**	**$(72)**

2. Modifications and Re-estimates

Direct Loan Programs (In Millions)	2018			
	Total Modifications	Interest Rate Re-estimates	Technical Re-estimates	Total Re-estimates
FHA Risk Sharing Program	$-	$-	$(103)	$(103)
All Other				
a) Green Retrofit Program	$-	$-	$(11)	$(11)
b) Emergency Homeowners' Relief Fund	-	-	-	-
Total	**$-**	**$-**	**$(114)**	**$(114)**

Direct Loan Programs (In Millions)	2017 (Restated)			
	Total Modifications	Interest Rate Re-estimates	Technical Re-estimates[21]	Total Re-estimates
FHA Risk Sharing Program	$-	$-	$64	$64
All Other				
a) Green Retrofit Program	$-	$-	$-	$-
b) Emergency Homeowners' Relief Fund	-	-	-	-
Total	**$-**	**$-**	**$64**	**$64**

[21] In FY 2018, FHA combined its Subsidy and Interest Expense components to be consistent with the OMB Circular A-136 guidance. The change in presentation caused the Technical Re-estimates column to be understated by $3M in the FY 2017 published AFR. As a result, this Note's 2017 Technical Re-estimates for FHA Risk Sharing Program increased from $61 million to $64 million.

3. Total Direct Loan Subsidy Expense

Direct Loan Programs (In Millions)	Current Year	Prior Year (Restated)[22]
FHA Risk Sharing Program	$(144)	$(8)
All Other		
a) Green Retrofit Program	$(11)	$-
b) Emergency Homeowners' Relief Fund	-	-
Total	**$(155)**	**$(8)**

F. Subsidy Rates for Direct Loans by Program and Component:

1. Budget Subsidy Rates for Direct Loans

	2018				
Direct Loan Programs	Interest	Defaults	Other Collections	Other	Total
FHA Risk Sharing Program	-13.9%	-	2.7%	3.0%	-8.2%
Green Retrofit Program (HUD Appropriation 86X4589)	41.0%	42.6%	-	-1.3%	82.3%
Emergency Homeowners' Relief fund (HUD Appropriation 86X4357)	-	-	-	97.7%	97.7%

	2017				
Direct Loan Programs	Interest	Defaults	Other Collections	Other	Total
FHA Risk Sharing Program	-13.9%	-	-1.0%	3.7%	-11.2%
Green Retrofit Program (HUD Appropriation 86X4589)	41.0%	42.6%	-	-1.3%	82.3%
Emergency Homeowners' Relief fund (HUD Appropriation 86X4357)	-	-	-	97.7%	97.7%

[22] The FHA presentation change on Note 7E2 flows through to this Note, causing a decrease in the FHA Risk Sharing Program line with a net effect of $3 million. The line decreased from its original 2017 amount of ($11 million) to the restated amount of ($8 million).

G. Schedule for Reconciling Subsidy Cost Allowance Balances (Post-1991 Direct Loans)

	2018		
(In Millions)	**FHA Programs**	**All Other Financing Only**	**Total**
Beginning Balance, Changes, and Ending Balance			
Beginning Balance of Subsidy Cost Allowance	$(37)	$73	$36
Add: subsidy expense for direct loans disbursed during reporting years by component:			
(a) Interest rate differential costs	$(76)	$-	$(76)
(b) Default Costs (net of recoveries)	-	-	-
(c) Fees and Other Collections	17	-	17
(d) Other Subsidy Costs	18	-	18
Total of the above subsidy expense components	$(41)	$-	$(41)
Adjustments:			
(a) Loan Modifications	$-	$-	$-
(b) Fees Received	1	-	1
(c) Foreclosed Properties Acquired	-	-	-
(d) Loans Written Off	-	(15)	(15)
(e) Subsidy Allowance Amoritization	(3)	-	(3)
(f) Other	(20)	-	(20)
Ending balance of the subsidy cost allowance before re-estimates	$(100)	$58	$(42)
Add or subtract subsidy re-estimates by component:			
(a) Interest Rate Re-estimate	$-	$-	$-
(b) Technical Default Re-estimate	(100)	(11)	(111)
Adjustment prior years' credit subsidy re-estimates	(3)	-	(3)
Total of the Above Re-estimate Components	$(103)	$(11)	$(114)
Ending Balance of the Subsidy Costs Allowance	**$(203)**	**$47**	**$(156)**

Beginning Balance, Changes, & Ending Balance (In Millions)	2017 (Restated) FHA Programs	All Other Financing Only	Total[23]
Beginning Balance of Subsidy Cost Allowance	$(24)	$88	$64
Add: subsidy expense for direct loans disbursed during reporting years by component:			
(a) Interest rate differential costs	$(76)	$-	$(76)
(b) Default Costs (net of recoveries)	1	-	1
(c) Fees and Other Collections	(18)	-	(18)
(d) Other Subsidy Costs	21	-	21
Total of the above subsidy expense components	$(72)	$-	$(72)
Adjustments:			
(a) Loan Modifications	$-	$-	$-
(b) Fees Received	3	-	3
(c) Foreclosed Properties Acquired	-	-	-
(d) Loans Written Off	-	(15)	(15)
(e) Subsidy Allowance Amortization	(4)	-	(4)
(f) Other	(4)	-	(4)
Ending balance of the subsidy cost allowance before re-estimates	$(101)	$73	$(28)
Add or subtract subsidy re-estimates by component:			
(a) Interest Rate Re-estimate	$-	$-	$-
(b) Technical Default Re-estimate	113	-	113
Adjustment prior years' credit subsidy re-estimates[23]	(49)	-	(49)
Total of the Above Re-estimate Components	64	-	64
Ending Balance of the Subsidy Costs Allowance	**$(37)**	**$73**	**$36**

[23] FHA adjusted its subsidy cost allowance to correct a carryover error from prior years. This impacted the Adjustment prior years' credit subsidy re-estimates line for an immaterial amount of $23 thousand. Since the AFR is in millions, there was no change to the line amount or Note.

H. Defaulted Guaranteed Loans from Pre-1992 Guarantees

(In Millions)	2018 Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Allowance for Loan and Interest Losses	Foreclosed Property, Net	Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net
FHA					
MMI/CMHI					
a) Single Family	$18	$-	$(4)	$4	$18
b) Multi Family	-	-	-	-	-
c) HECM	-	-	-	-	-
GI/SRI					
a) Single Family	$-	$-	$(4)	$9	$5
b) Multi Family	1,503	234	(616)	(5)	1,116
c) HECM	3	1	(2)	(2)	-
Total	**$1,524**	**$235**	**$(626)**	**$6**	**$1,139**

(In Millions)	2017 Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Allowance for Loan and Interest Losses	Foreclosed Property, Net	Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net
FHA					
MMI/CMHI					
a) Single Family	$19	$-	$(4)	$5	$20
b) Multi Family	-	-	-	-	-
c) HECM	-	-	-	-	-
GI/SRI					
a) Single Family	$-	$-	$(3)	$9	$6
b) Multi Family	1,614	231	(682)	-	1,163
c) HECM	3	1	(1)	(2)	1
Total	**$1,636**	**$232**	**$(690)**	**$12**	**$1,190**

I. Defaulted Guaranteed Loans from Post-1991 Guarantees

	2018				
(In Millions)	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)	Foreclosed Property, Net	Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net
FHA					
MMI/CMHI					
a) Single Family	$11,810	$-	$(5,682)	$1,001	$7,129
b) Multi Family	-	-	-	-	-
c) HECM	10,098	6,707	(5,208)	82	11,679
GI/SRI					
a) Single Family	$416	$-	$(201)	$23	$238
b) Multi Family	694	-	(315)	27	406
c) HECM	3,983	2,297	(2,812)	108	3,576
H4H					
a) Single Family	$6	$-	$(5)	$-	$1
All Other					
a) Indian Housing Loan Guarantee	$-	$-	$-	$7	$7
b) Native Hawaiian Housing Loan Guarantee	-	-	-	1	1
Total	**$27,007**	**$9,004**	**$(14,223)**	**$1,249**	**$23,037**

(In Millions)	2017 (Restated) Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)[24]	Foreclosed Property, Net	Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net
FHA					
MMI/CMHI					
a) Single Family	$11,160	$-	$(6,133)	$1,437	$6,464
b) Multi Family	-	-	-	-	-
c) HECM[24a]	6,992	4,176	(3,931)	36	7,273
GI/SRI					
a) Single Family	$416	$1	$(225)	$35	$227
b) Multi Family	645	(1)	(272)	1	373
c) HECM[24b]	3,701	1,981	(2,022)	79	3,739
H4H					
a) Single Family	$5	$-	$(5)	$-	$-
All Other					
a) Indian Housing Loan Guarantee	$-	$-	$-	$13	$13
b) Native Hawaiian Housing Loan Guarantee	-	-	-	-	-
Total	**$22,919**	**$6,157**	**$(12,588)**	**$1,601**	**$18,089**

	2018	2017 (Restated)
Total Credit Program Receivables and Related Foreclosed Property, Net[24c]	**$27,233**	**$21,946**

[24] FHA corrected a discounting rate error in its HECM ROA cash flow model. This correction impacted FHA's MM/CMHI HECM and GI/SRI HECM lines under the Allowance for Subsidy Cost (Present Value) column causing a total net decrease of $1,696 million.

[24a] FHA's MM/CMHI HECM line decreased from ($5,052 million) to ($3,931 million) with net effect of $1,120 million.

[24b] FHA's GI/SRI HECM line decreased from ($2,598 million) to ($2,022 million) with net effect of $576 million.

[24c] Total Credit Program Receivables and Related Foreclosed Property, Net line increased from $20,249 million to $21,946 million with net effect of $1,697 million.

J. Guaranteed Loans Outstanding

1. Guaranteed Loans Outstanding:

Loan Guarantees Programs (In Millions)	2018	
	Outstanding Principal Guaranteed Loans Face Value	**Amount of Outstanding Principal Guaranteed**
FHA		
a) MMI/CMHI Funds	$1,323,003	$1,193,001
b) GI/SRI Funds	147,748	133,744
c) H4H Program	75	66
All Other	$8,651	$8,647
Total	**$1,479,477**	**$1,335,458**

Loan Guarantees Programs (In Millions)	2017 (Restated)	
	Outstanding Principal Guaranteed Loans Face Value[25]	**Amount of Outstanding Principal Guaranteed[25a]**
FHA		
a) MMI/CMHI Funds	$1,273,156	$1,154,481
b) GI/SRI Funds	136,283	123,018
c) H4H Program	81	73
All Other[25b,25c]	$8,226	$8,222
Total	**$1,417,746**	**$1,285,794**

[25] HUD performed an analysis on Section 108-Loan Guarantee and Section 184A- Native Hawaiian Housing Loan Guarantee programs comparing its program office reports to general ledger reports. The analysis determined that the programs were overstated by $191million and understated by $12 million respectively. The correction to these programs resulted in a net decrease of ($179 million) on the All Other lines.

[25a] Ibid.

[25b] The All Other line under the Outstanding Principal Guaranteed Loans Face Value column decreased from $8,405 million to $8,226 million.

[25c] The All Other line under the Amount of Outstanding Principal Guaranteed column decreased from $8,401 million to $8,222 million.

2. Home Equity Conversion Mortgage Loans Outstanding:

Loan Guarantee Programs (In Millions)	2018 Current Year Endorsements	Cumulative Current Outstanding Balance	Cumulative Maximum Potential Liability
FHA Programs	**$16,189**	**$100,088**	**$143,889**

Loan Guarantee Programs (In Millions)	2017 Current Year Endorsements	Cumulative Current Outstanding Balance	Cumulative Maximum Potential Liability
FHA Programs	**$17,691**	**$103,597**	**$147,582**

3. New Guaranteed Loans Disbursed:

Loan Guarantee Programs (In Millions)	2018	
	Principal of Guaranteed Loans, Face Value	Amount of Principal Guaranteed
FHA		
a) MMI/CMHI Funds	$209,118	$207,176
b) GI/SRI Funds	18,425	18,349
c) H4H Program	-	-
All Other	$676	$676
Total	**$228,219**	**$226,201**

Loan Guarantee Programs (In Millions)	2017 (Restated)	
	Principal of Guaranteed Loans, Face Value[26]	Amount of Principal Guaranteed[26a]
FHA		
a) MMI/CMHI Funds	$250,925	$248,307
b) GI/SRI Funds	16,884	16,807
c) H4H Program	-	-
All Other[26b]	$883	$883
Total	**$268,692**	**$265,997**

[26] The analysis performed on Section 184A- Native Hawaiian Housing Loan Guarantee program comparing its program office reports to general ledger reports also impacted this Note. The correction to this program resulted in a net increase of $12 million on the All Other lines

[26a] Ibid.

[26b] The All Other line under the Principal of Guaranteed Loans, Face Value and Amount of Principal Guaranteed columns increased from $871 million to $883 million.

K. Liability for Loan Guarantees

1. Liability for Loan Guarantees (Estimated Future Default Claims for Pre-1992 Guarantees):

Loan Guarantee Programs (In Millions)	2018		
	Liabilities for Losses on Pre-1992 Guarantees, Estimated Future Default Claims	Liabilities for Loan Guarantees, for Post 1991 Guarantees, (Present Value)	Total Liabilities For Loan Guarantees
FHA Programs	$1	$18,720	$18,721
All Other	-	227	227
Total	**$1**	**$18,947**	**$18,948**

Loan Guarantee Programs (In Millions)	2017		
	Liabilities for Losses on Pre-1992 Guarantees, Estimated Future Default Claims	Liabilities for Loan Guarantees, for Post 1991 Guarantees, (Present Value)	Total Liabilities For Loan Guarantees
FHA Programs	$8	$20,059	$20,067
All Other	-	267	267
Total	**$8**	**$20,326**	**$20,334**

L. Subsidy Expense for Post-1991 Guarantees

1. Subsidy Expense for Loan Guarantees:

Loan Guarantee Programs (In Millions)	2018				
	Endorsement Amount	Default Component	Fees Component	Other Component	Subsidy Amount
FHA					
a) MMI/CMHI Funds, Excluding HECM	$209,118	$5,062	$(13,681)	$1,966	$(6,653)
b) MMI/CMHI Funds, HECM	16,189	635	(714)	-	(79)
c) GI/SRI Funds	18,424	206	(854)	-	(648)
d) H4H Program	-	-	-	-	-
All Other	$-	$14	$(10)	$-	$4
Total	**$243,731**	**$5,917**	**$(15,259)**	**$1,966**	**$(7,376)**

Loan Guarantee Programs (In Millions)	Endorsement Amount[27]	2017 (Restated)			
		Default Component	Fees Component	Other Component	Subsidy Amount
FHA					
a) MMI/CMHI Funds, Excluding HECM	$250,925	$6,074	$(19,525)	$2,359	$(11,092)
b) MMI/CMHI Funds, HECM	17,691	1,250	(1,308)	-	(58)
c) GI/SRI Funds[27a]	16,883	214	(890)	-	(676)
d) H4H Program	-	-	-	-	-
All Other	$-	$20	$(13)	$-	$7
Total	**$285,499**	**$7,558**	**$(21,736)**	**$2,359**	**$(11,819)**

2. Modification and Re-estimates

Loan Guarantee Programs (In Millions)	2018			
	Total Modifications	Interest Rate Re-estimates	Technical Re-estimates	Total Re-estimates
FHA				
a) MMI/CMHI Funds	$-	$-	$(506)	$(506)
b) GI/SRI Funds	-	-	(1,002)	(1,002)
All Other	$-	$(20)	$(25)	$(45)
Total	**$-**	**$(20)**	**$(1,533)**	**$(1,553)**

Loan Guarantee Programs (In Millions)	2017 (Restated)			
	Total Modifications	Interest Rate Re-estimates	Technical Re-estimates[28,29]	Total Re-estimates
FHA				
a) MMI/CMHI Funds[28a,29a]	$-	$-	$23,182	$23,182
b) GI/SRI Funds[28b,29b]	-	-	5,916	5,916
All Other	$-	$-	$(22)	$(22)
Total[30]	**$-**	**$-**	**$29,076**	**$29,076**

27 HUD corrected a mathematical error on FHA's GI/SRI Funds Endorsement Amount line; this impact was at the HUD consolidated level only. The line was overstated by $250,904 million in the FY 2017 published AFR. The total Endorsement Amount column has now decreased from $536,403 million to $285,499 million to properly reflect FHA's actual 2017 amount.

27a FHA's GI/SRI Funds line decreased from $267,787 million to $16,883 million.

28 FHA's correction of the discounting rate error in its Homeowners Equity Conversion Mortgage (HECM) Return on Assets (ROA) cash flow model impacted this Note as well. The correction created a total net decrease of $1,696 million to the Technical Re-estimates column.

28a FHA's MM/CMHI Funds line decreased from $21,112 million to $19,992 million with net effect of ($1,120 million).

28b FHA's GI/SRI Funds line decreased from $3,693 million to $3,117 million with net effect of ($576 million).

29 FHA's presentation change to combine its Subsidy and Interest Expense components for consistency with the OMB Circular A-136 guidance impacted this Note as well. The change in presentation caused a total net increase of $5,989 million in the Technical Re-estimates column.

29a FHA's MM/CMHI Funds line increased from $21,112 million to $24,303 million with net effect of $3,191 million.

29b FHA's GI/SRI Funds line increased from $3,693 million to $6,492 million with net effect of $2,799 million.

30 The net impact of a, b is a increase of $4,293 million on the total line of the Technical Re-estimates column from $24,783 million to $29,076 million.

3. Total Loan Guarantee Subsidy Expense

Loan Guarantee Programs (In Millions)	Current Year	Prior Year (Restated)[31]
FHA		
a) MMI/CMHI Funds[31a]	$(7,238)	$12,032
b) GI/SRI Funds[31b]	(1,650)	5,240
c) H4H Program	-	-
All Other	$(41)	$(15)
Total	**$(8,929)**	**$17,257**

M. Subsidy Rates for Loan Guarantees by Programs and Component

1. Budget Subsidy Rates for Loan Guarantees:

	2018			
Loans Guarantee Programs	**Default**	**Fees and Other Collections**	**Other**	**Total**
FHA Administrated Programs				
MMI/CMHI Funds				
Single Family - Forward	2.4%	-5.6%	-	-3.2%
Single Family - HECM	3.9%	-4.4%	-	-0.5%
Multifamily - Section 213	2.4%	-5.6%	-	-3.2%
GI/SRI Funds				
Title I - Manufactured Housing	5.8%	-10.2%	-	-4.4%
Title I - Property Improvements	4.4%	-5.8%	-	-1.4%
Apartments - NC/SC	2.2%	-3.8%	-	-1.6%
Tax Credit Projects	0.9%	-2.5%	-	-1.6%
Apartments - Refinance	0.3%	-4.2%	-	-3.9%
HFA Risk Share	-	0.3%	-	0.3%
Other Rentals[32]	0.9%	-4.6%	-	-3.7%
Healthcare				
FHA Full Insurance - Health Care	1.5%	-8.5%	-	-7.0%
Health Care Refinance	0.7%	-6.6%	-	-5.9%
Hospitals	1.5%	-6.8%	-	-5.3%
Other HUD Programs				
CDBG, Section 108(b)	2.4%	-2.4%	-	-
Loan Guarantee Recovery Fund	50.0%	-	-	50.0%
Indian Housing Loan Guarantee Fund	3.4%	-3.9%	0.8%	0.3%
Hawaiian Home Guarantee Loan Fund	0.7%	-1.0%	-	-0.3%
Title VI Indian Housing Loan Guarantee	11.5%	-	-	11.5%

[31] FHA's correction of the discounting rate error and presentation change disclosures on Note 7L2 flows through to this Note. These changes created a total net increase of $4,293 million.

[31a] FHA's MM/CMHI Funds line increased from $9,961 million to $12,032 million with net effect of $2,070 million.

[31b] FHA's GI/SRI Funds line decreased from $3,017 million to $5,240 million with net effect of $2,223 million.

[32] Due to presentation change by FHA in FY 2018 "Other Rentals" has been categorized from under Healthcare category to GI/SRI Funds category.

Loan Guarantee Program	2017 (Restated) Default	Fees and Other Collections	Other	Total
FHA Programs				
MMI/CMHI				
Single Family - Forward	2.4%	-6.8%	-	-4.4%
Single Family - HECM	7.1%	-7.4%	-	-0.3%
Multi Family - Section 213	2.4%	-6.8%	-	-4.4%
GI/SRI Funds				
Title I - Manufactured Housing	6.2%	-10.0%	-	-3.8%
Title I - Property Improvements	4.7%	-5.7%	-	-1.0%
Apartments - NC/SC	1.5%	-4.3%	-	-2.8%
Tax Credit Projects	1.0%	-2.6%	-	-1.6%
Apartments - Refinance	0.3%	-4.2%	-	-3.9%
HFA Risk Share	-	-1.1%	-	-1.1%
Other Rentals[33]	1.5%	-5.0%	-	-3.5%
Healthcare[34]				
FHA Full Insurance - Health Care	2.5%	-8.4%	-	-5.9%
Health Care Refinance	1.5%	-6.7%	-	-5.2%
Hospitals	1.1%	-6.7%	-	-5.6%
All Other Programs				
CDBG, Section 108(b)	2.6%	-2.6%	-	-
Loan Guarantee Recovery Fund	50.0%	-	-	50.0%
Indian Housing Loan Guarantee Fund	3.8%	-3.9%	-	-0.1%
Native Hawaiian Home Guarantee Loan Fund	0.7%	-1.0%	-	-0.3%
Title VI Indian Housing Loan Guarantee	11.2%	-	-	11.2%

[33] Ibid.

[34] In FY 2018, FHA included its Health Care Refinance percentages in this Note. For comparative purpose, the FY 2017 information has been updated to include the Healthcare percentages.

N. Schedule for Reconciling Loan Guarantee Liability Balances (Post-1991 Loan Guarantees)

Beginning Balance, Changes, and Ending Balance (In Millions)	2018	2017 (Restated)[35]
Beginning balance of the loan guarantee liability	$20,883	$(503)
Add: subsidy expense for guaranteed loans disbursed during the reporting years by component:		
(b) Default costs (net of recoveries)	5,917	7,558
(c) Fees and Other Collections	(15,259)	(21,736)
(d) Other subsidy costs	1,966	2,359
Total of the above subsidy expense components	**$(7,376)**	**$(11,819)**
Adjustments:		
(b) Fees Received	$14,023	$14,580
(d) Foreclosed Properties and Loans Acquired[35a]	10,358	10,432
(e) Claims Payments to Lenders	(17,724)	(21,218)
(f) Interest Accumulation on the Liability Balance	441	282
(g) Other[35b]	281	53
Ending Balance of the Loan Guarantee Liability before re-estimates	**$20,886**	**$(8,193)**
Add or Subtract subsidy re-estimates by component:		
(a) Interest Rate Re-estimate	$(20)	$-
(b) Technical Default Re-estimate[35c]	(9,561)	3,259
(c) Adjustment of prior years' credit subsidy re-estimates	8,028	25,817
Total of the above re-estimate components	**$(1,553)**	**$29,076**
Ending Balance of the Loan Guarantee Liability	**$19,333**	**$20,883**
Adjustment for Unrealized Ginnie Mae claims from defaulted loans	**$(385)**	**$(549)**
Ending Balance of the Loan Guarantee Liability	**$18,948**	**$20,334**

O. Administrative Expenses

Loan Guarantee Programs (In Millions)	2018	2017 (Restated)
FHA[36]	$723	$708
All Other	-	-
Total	**$723**	**$708**

[35] FHA's correction of the discounting rate error on Note 7L2 flows through to this Note. Additionally, FHA reclassified $8M of its Loan Loss Reserve for Technical Default Re-estimate to the Loan Loss Reserve Adjustments line. These disclosures are reclassifications with an impact $0 to the total Note amount for FY 2017.

[35a] Adjustments: Foreclosed Properties and Loans Acquired line increased from $10,432 million to $8,735 million with net effect of $1,697 million.

[35b] Adjustments: Other line increased from $45 million to $53 million with net effect of $8 million.

[35c] Add or Subtract subsidy re-estimates by component: Adjustments of prior year's credit subsidy re-estimates line decreased from $4,964 million to $3,259 million with net effect of ($1,705 million).

[36] HUD corrected its FY 2017 cost allocation methodology to properly re-allocate FHA and Non-FHA expenses. As a result of the re-allocation, FHA's Administrative Expenses increased by $174 million. FHA's total increased from $534 million to $708 million.

Note 8: Other Non-Credit Reform Loans

The following shows HUD's Other Non-Credit Reform Loans Receivable as of September 30, 2018 and 2017:

(In Millions)	2018		
	Ginnie Mae Reported Balances	Allowance for Loan Losses Due to Payment of Probable Claims by FHA	Value of Assets Related to Loans
Mortgage Loans Held for Investment	$2,684	$(328)	$2,356
Properties Held for Sale, Net	25	-	25
Foreclosed Property	208	(28)	180
Short Sale Claims Receivable	44	(29)	15
Total	**$2,961**	**$(385)**	**$2,576**

(In Millions)	2017		
	Ginnie Mae Reported Balances	Allowance for Loan Losses Due to Payment of Probable Claims by FHA	Value of Assets Related to Loans
Mortgage Loans Held for Investment	$3,071	$(454)	$2,617
Properties Held for Sale, Net	45	-	45
Foreclosed Property	309	(49)	260
Short Sale Claims Receivable	65	(47)	18
Total	**$3,490**	**$(550)**	**$2,940**

Other Non-Credit Reform Loans consist of Ginnie Mae Advances Against Defaulted Mortgage-Backed Security Pools, Mortgage Loans Held for Investment, Properties Held for Sale, Short Sale Claims Receivable, and Foreclosed Property. Below is a description of each type of asset recorded by Ginnie Mae.

Mortgage Loans Held for Investment

When a Ginnie Mae issuer defaults, terminated and extinguished, Ginnie Mae steps into the role of the issuer and assumes all servicing rights and obligations of the issuer's entire Ginnie Mae guaranteed portfolio, including making timely pass through payments. Ginnie Mae utilizes a Master Sub-servicer (MSS) to service these portfolios. There are currently two MSS for terminated and extinguished issuers that service the terminated and extinguished issuer portfolio (of pooled and non-pooled loans).

In its role as servicer, Ginnie Mae assesses individual loans within its pooled portfolio to determine whether the loan must be purchased out of the pool. Ginnie Mae must purchase mortgage loans out of the MBS pool when the mortgage loans are ineligible for insurance by the FHA, RD, VA, or PIH, as well as loans that have been modified beyond the trial modification period. Additionally, Ginnie Mae has the option to purchase mortgage loans out of the MBS pool when the mortgage loans are insured but are delinquent for more than 90 days.

Ginnie Mae has the ability and the intent to hold acquired loans for the foreseeable future or until maturity, therefore, the mortgage loans are classified as HFI. Ginnie Mae reports the carrying value of HFI loans on the Balance Sheets at the unpaid principal balance (UPB) along with accrued interest, net of cost basis adjustments, and net of allowance for loan losses including accrued interest, as required by GAAP. In the event that Ginnie Mae decides to sell the loans currently recognized on Ginnie Mae's Balance Sheets, Ginnie Mae will reclassify the applicable loans from HFI to Held for Sale (HFS). For loans which Ginnie Mae initially classified as HFI and subsequently transfers to HFS, those loans would be recognized at the lower of cost or fair value until sold, with any related cash flows classified as operating activities. At September 30, 2018 and 2017, Ginnie Mae had no loans classified as HFS.

Ginnie Mae performs periodic and systematic reviews of its loan portfolios to identify credit risks and assess the overall collectability of the portfolios to determine the estimated uncollectible portion of the recorded investment on the loans when 1) available information at each balance sheet date, indicates that it is probable a loss has occurred and 2) the amount of the loss can be reasonably estimated.

For large groups of homogeneous loans that are collectively evaluated (pursuant to requirements in ASC 450-20: Contingencies – Loss Contingencies), Ginnie Mae establishes the allowance for loan losses and records an allowance against both principal and interest (P&I) payments similar to loss contingencies. When Ginnie Mae determines that it is probable a credit loss will occur, and that loss can be reasonably estimated, Ginnie Mae recognizes the estimated amount of the incurred loss in the allowance for loan losses. Ginnie Mae aggregates its mortgage loans based on common risk characteristics, primarily by the type of insurance (FHA, VA, RD, PIH) associated with the loan, as each has a different recovery rate. Ginnie Mae also categorizes uninsured loans separately from insured loans. The allowance for loan losses estimate is calculated using statistical models that are based on historical loan performance and insurance recoveries. The estimate also includes qualitative factors, where applicable.

This allowance for losses represents management's best estimate of probable credit losses inherent in Ginnie Mae's mortgage loan portfolio. The allowance is netted against the recorded investment on mortgage loans.

Ginnie Mae considers a loan to be impaired when, based on current information, it is probable that amounts due, including interest, will not be recovered in accordance with the contractual terms of the loan agreement (pursuant to requirements under ASC: 310-10 Receivables – Overall). Ginnie Mae measures impairment based on the present value of expected future cash flows.

Per GAAP, Ginnie Mae is required to measure impairment based on the fair value of the underlying collateral less cost to sell when Ginnie Mae determines that foreclosure is probable or if the repayment of the loan is expected to be provided solely through the sale of underlying collateral (e.g., uninsured loans).

Due to lack of required data at September 30, 2018, Ginnie Mae was unable to obtain an updated fair value of the underlying collateral to fully comply with GAAP requirements for impaired loans outlined above.

Please note that management is currently assessing current and historic loan accounting for potential restatement.

Advances against Defaulted Mortgage-Backed Security Pools

Advances represent pass-through payments made to the MSS or issuers to fulfill Ginnie Mae's guarantee of timely P&I payments to MBS security holders, including payments made to active and non-defaulted issuers under a Ginnie Mae approved disaster relief program extended to support issuers impacted by natural disasters. Ginnie Mae reports advances net of an allowance to the extent that management believes advances will not be collected. The allowance is calculated based on expected recovery amounts from any mortgage insurance per established insurance rates, Ginnie Mae's collectability experience, and other economic factors.

Once Ginnie Mae purchases loans from the pools, the associated advances are recorded within the appropriate asset class along with the mortgage loan balance.

Properties Held for Sale, Net

Properties Held for Sale represent assets for which Ginnie Mae has received the title of the underlying collateral (e.g., completely foreclosed upon and repossessed) and intends to sell the collateral. The acquired properties are typically either RD insured or uninsured conventional loans[37]. For instances in which Ginnie Mae does not convey the property to the insuring agency, Ginnie Mae holds the title until the property is sold. As the properties are available for immediate sale in their current condition and are actively marketed for sale, they are to be recorded at the fair value of the asset less the estimated cost to sell with subsequent declines in the fair value

[37] Properties from foreclosed FHA and VA insured loans are usually conveyed to the insuring agency subsequent to foreclosure.

below the initial acquired property cost basis recorded through the use of a valuation allowance. The Properties HFS balance is one of the line items for which Ginnie Mae Management is currently performing an assessment related to the recognition and measurement as compared to GAAP requirements. Currently, Ginnie Mae does not have access to broker price opinions or other fair value data for acquired properties. A further assessment of data availability is currently being performed.

Foreclosed Property

Ginnie Mae records foreclosed property when the MSS receives title to a residential real estate property that has completed the foreclosure process in its respective legal jurisdiction, or when the mortgagor conveys all interest in the property to Ginnie Mae through its MSS to satisfy the loan through completion of a deed in lieu of foreclosure process or similar legal agreement. These properties differ from acquired properties as Ginnie Mae intends to convey the property to an insuring agency, instead of marketing and selling the properties through the MSS. The claimed asset is measured based on the amount of the loan outstanding balance, P&I, expected to be recovered from the insuring agency. Once the claims receivable is established, Ginnie Mae periodically assesses its collectability by utilizing statistical models and Ginnie Mae's most recent historical loss experience. Ginnie Mae records an allowance for foreclosed property that represents the expected unrecoverable amounts within the portfolio. Foreclosed property less the allowance for foreclosed property is the amount that Ginnie Mae determines to be collectible. Management is currently assessing current and historic accounting practices for potential restatement.

Short Sale Claims Receivable

As an alternative to foreclosure, a property may be sold for an agreed-upon price, at which the net proceeds fall short of the debts secured by liens against the property. Accordingly, short sale proceeds are often times insufficient to fully pay off the mortgage. Ginnie Mae's MSS analyze mortgage loans for factors such as delinquency, appraised value of the property collateralizing the loan, and market locale of the underlying property to identify loans that may be short sale eligible. Short sale transactions are analyzed and approved by the Office of Issuer and Portfolio Management (OIPM) at Ginnie Mae. For FHA insured loans, for which the underlying property was sold in a short sale, the FHA, which is the largest insurer for Ginnie Mae, typically pays Ginnie Mae the difference between the proceeds received from the sale and the total contractual amount of the mortgage loan and delinquent interest payments at the debenture rate (less the first two months of delinquent month's interest). Ginnie Mae records a short sale claims receivable while it awaits repayment of this amount from the insuring agencies. Short sales on VA, RD, and PIH insured loans follow a similar process in which the claims receivable amount is determined in accordance with the respective agency guidelines.

Ginnie Mae will recognize an allowance for uncollectable amounts against short sale claim receivables when it believes the collection of the full receivable is doubtful. This allowance represents the unrecoverable amounts within the portfolio and incorporates expected recovery based on the underlying insuring agency guidelines and historical loss experience. The short sales receivable less the allowance for short sales receivable is the amount that Ginnie Mae determines to be collectible. Once claims are collected, GAAP requires Ginnie Mae to charge-off any uncollectable amounts against the allowance for short sale claims receivables. Management is currently assessing current and historic accounting practices for potential restatement.

Note 9: General Property, Plant, and Equipment (PP&E), Net

PP&E consists of furniture, fixtures, equipment, and data processing software used in providing goods and services that have an estimated useful life of two or more years. Purchases of $100,000 (PP&E) and $1,750,000 Internal Use Software (IUS) or more are recorded as an asset and depreciated over their estimated useful life on a straight-line basis with no salvage value for general property, plant and equipment. Generally, the Department's assets are depreciated over a four-year period for PP&E and a seven year period for IUS, unless it can be demonstrated that the estimated useful life is significantly greater than the specified time period.

The following shows general property, plant, and equipment as of September 30, 2018 and 2017:

	2018		
(In Millions)	Cost	Accumulated Depreciation and Amortization	Book Value
Equipment	$5	$(2)	$3
Equipment - Ginnie Mae	2	(1)	1
Leasehold Improvements	1	-	1
Leasehold Improvements - Ginnie Mae	-	-	-
Internal Use Software	80	(72)	8
Internal Use Software - Ginnie Mae	180	(137)	43
Internal Use Software in Development	325	-	325
Internal Use Software in Development - Ginnie Mae	42	-	42
Capital Leases - Ginnie Mae	1	(1)	-
Total	**$636**	**$(213)**	**$423**

(In Millions)	2017		
	Cost	Accumulated Depreciation and Amortization	Book Value
Equipment	$6	$(2)	$4
Equipment - Ginnie Mae	4	(3)	1
Leasehold Improvements	1	-	1
Leasehold Improvements - Ginnie Mae	-	-	-
Internal Use Software	79	(71)	8
Internal Use Software - Ginnie Mae	168	(120)	48
Internal Use Software in Development	311	-	311
Internal Use Software in Development - Ginnie Mae	39	-	39
Capital Leases - Ginnie Mae	1	(1)	-
Total	**$609**	**$(197)**	**$412**

Note 10: PIH Prepayments

HUD's assets include the Department's estimates for RNP balances maintained by PHA under the HCV Program. The voucher program is the Federal Government's major program for assisting very low-income families, the elderly, and the disabled to afford decent, safe and sanitary housing in the private market. RNP balances represent disbursements to PHAs that are in excess of their expenses. PHAs can use RNP balances to cover any valid Housing Assistance Program (HAP) expenses.

In FY 2018, OCFO and PIH developed and implemented an estimation methodology to calculate the prepayment balance. PHAs have 45 calendar days after the end of the month to report their expenses, which creates delays in utilizing actuals for the Prepayment Balance calculation. The estimation methodology uses the beginning balance of the RNP report, PHA's cash funding amount from the trial balance, PHA's expenses from the Voucher Management System (VMS) Data Report and adjusted for expenses greater than funding received. The estimation calculation is completed on a quarterly basis.

PIH has estimated RNP balances of $263 million for FY 2018, consisting of $241 million for the HCV Program and $22 million for the Moving to Work Program. In FY 2017, the estimated RNP balance of $337 million consisted of $211 million for the HCV Program and $126 million for the Moving to Work Program.

Note 11: Other Assets

The following shows HUD's Other Assets as of September 30, 2018 and 2017:

(In Millions)	2018 FHA	Ginnie Mae	Section 8	All Other	Total
Intragovernmental Assets:					
Other Assets	$-	$-	$2	$45	$47
Total Intragovernmental Assets	**$-**	**$-**	**$2**	**$45**	**$47**
Public:					
Escrow Monies Deposited at Minority-Owned Banks	$-	$-	$-	$-	$-
Other Assets	-	-	-	-	-
Total	**$-**	**$-**	**$2**	**$45**	**$47**

(In Millions)	2017 FHA	Ginnie Mae	Section 8	All Other	Total
Intragovernmental Assets:					
Other Assets	$-	$-	$3	$17	$20
Total Intragovernmental Assets	**$-**	**$-**	**$3**	**$17**	**$20**
Public:					
Escrow Monies Deposited at Minority-Owned Banks	$-	$-	$-	$-	$-
Other Assets	-	-	-	-	-
Total	**$-**	**$-**	**$3**	**$17**	**$20**

Intragovernmental Other Assets primarily represent the Department's Research and Technology, Policy Development, and Research program with other federal agencies. Other Assets with the public represent FHA's: 1) escrow monies collected that are deposited in minority-owned banks; 2) deposits in transit; and 3) advances and prepayments.

Note 12: Liabilities Not Covered by Budgetary Resources

The following shows HUD's liabilities as of September 30, 2018 and 2017:

(In Millions)	2018	2017 (Restated)[38,39]
Intragovernmental		
Accounts Payable	$-	$-
Other Intragovernmental Liabilities	19	14
Total Intragovernmental Liabilities	**$19**	**$14**
Public		
Federal Employee and Veteran Benefits	$63	$65
Loss Reserves	21	268
Other Liabilities[38a]	76	138
Total Public Liabilities	**$160**	**$471**
Total Liabilities Not Covered by Budgetary Resources	$179	$485
Total Liabilities Covered by Budgetary Resources	49,123	54,268
Total Liabilities Not Requiring Budgetary Resources[39a]	3,137	2,131
Total Liabilities	**$52,439**	**$56,884**

HUD's Other governmental liabilities principally consist of Ginnie Mae's deferred revenue and the Department's payroll costs. Pursuant to the July 2018 OMB Circular A-136, this note includes the category "Total Liabilities Not Requiring Budgetary Resources". This category includes HUD's deposit, clearing, unavailable general fund receipt accounts, and FHA's special receipt account.

Note 13: Debt

Several HUD programs have the authority to borrow funds from Treasury for program operations. Additionally, the National Housing Act authorizes FHA, in certain cases, to issue debentures in lieu of cash to pay claims. Also, PHAs and TDHEs borrowed funds from the private sector and the FFB to finance construction and rehabilitation of low-rent housing. HUD is repaying these borrowings on behalf of the PHAs and TDHEs.

38 In HUD's FY 2017 year-end legal letter, a case was noted as set to be paid out through the Treasury Judgement Fund. HUD corrected its Contingent Liability for FY 2017, as it was overstated by $136 million. The Public- Other Liabilities line decreased from $275 million to $138 million.

38a Ibid.

39 FHA's correction of the discounting rate error caused a cohort in the General Insurance to go from a upward to a downward re-estimate. The downward-re-estimate created a payable to Treasury. This payable increased the Total Liabilities Not Requiring Budgetary Resources line from $2,070 to $2,131 million with a net effect of $61 million.

39a Ibid.

FHA borrows from the Bureau of the Fiscal Service's (BFS) Federal Investments and Borrowings Branch, which facilitates loans to federal agencies on behalf of the Department of the Treasury. The FCRA permits agencies to borrow from Treasury to support credit programs. Collections and disbursements with the public are transacted in FHA's financing accounts and are considered a means-of-financing (non-budgetary). When cash balances are insufficient to support its operations, FHA borrows from Treasury. When there is sufficient cash in the financing accounts, FHA can opt to repay principal. Repayments of principal can be made throughout the fiscal year.

Both interest revenue and expense are accrued at FHA's Single Effective Rate (SER). FHA's single effective rates range from 1.02% to 7.59%. Interest revenue is based on the cash balances in the financing accounts, whereas interest expense is based on the principal balances for the entire fiscal year (effective date of October 1st of the current fiscal year), regardless of the actual transaction date.

The following shows HUD borrowings, and borrowings by PHAs/TDHEs for which HUD is responsible for repayment, as of September 30, 2018:

	2018		
(In Millions)	Beginning Balance	Net Borrowings	Ending Balance
Debt to the Federal Financing Bank	$1,187	$484	$1,671
Debt to the U.S. Treasury	28,082	(3,240)	24,842
Held by the Public	2	1	3
Total	$29,271	$(2,755)	$26,516

	2018
	Ending Balance
Classification of Debt:	
Intragovernmental Debt	$26,513
Debt Held by the Public	3
Total	**$26,516**

The following shows HUD borrowings, and borrowings by PHAs/TDHEs for which HUD is responsible for repayment, as of September 30, 2017:

	2017		
(In Millions)	Beginning Balance	Net Borrowings	Ending Balance
Debt to the Federal Financing Bank	$555	$632	$1,187
Debt to the U.S. Treasury	30,447	(2,365)	28,082
Held by the Public	8	(6)	2
Total	$31,010	$(1,739)	$29,271

	2017
	Ending Balance
Classification of Debt:	
Intragovernmental Debt	$29,269
Debt Held by the Public	2
Total	**$29,271**

Interest paid on borrowings as of September 30, 2018 and 2017 was $1,128 million and $1,166 million, respectively. The purpose of these borrowings is discussed in the following paragraphs.

Borrowings from Treasury

In accordance with Credit Reform accounting, FHA borrows from Treasury when cash is needed in its financing accounts. Usually, the need for cash arises when FHA has to transfer the negative credit subsidy amounts related to new loan disbursements and existing loan modifications from the financing accounts to the general fund receipt account (for cases in GI/SRI funds) or to the capital reserve account (for cases in MMI/CMHI funds). In some instances, borrowings are also needed to transfer the credit subsidy related to downward re-estimates and when available cash is less than claim payments due. These borrowings carried interest rates ranging from 1.02% to 7.59% during FY 2018.

HUD's Other Programs with outstanding aggregate borrowings are the Indian Housing Loan Guarantee Program, the Native Hawaiian Housing Block Grant Program, the Emergency Homeowner's Loan Program, and the Green Retrofit Program.

Borrowings from the Federal Financing Bank and the Public

During the 1960s to 1980s, PHAs obtained loans from the private sector and from the FFB to finance development and rehabilitation of low rent housing projects. HUD is repaying these borrowings on behalf of the PHAs, through the Low Rent Public Housing Program. For borrowings from the public, interest is payable throughout the year. All FFB borrowings had been repaid.

Starting in FY 2015, FHA began a FFB Risk Share program, an inter-agency partnership between HUD, FFB, and the HFAs. The FFB Risk Share Program provides funding for multifamily mortgage loans insured by FHA. Under this program, FHA records a direct loan from the public and borrowing from FFB. The program does not change the basic structure of Risk Sharing; it only substitutes FFB as the funding source. The HFAs would originate and service the loans and share in any losses.

Note 14: Federal Employee and Veterans' Benefits

HUD is a non-administering agency; therefore, it relies on cost factors and other actuarial projections provided by the DOL and OPM. HUD's imputed costs consist of two components, pension and health care benefits. During FY 2018 HUD recorded imputed costs of $76 million which consisted of $28 million for pension and $48 million for health care benefits. During FY 2017, HUD recorded imputed costs of $53 million which consisted of $15 million for pension and $38 million for health care benefits. These amounts are reported by OPM and charged to expense with a corresponding amount considered as an imputed financing source in the Statement of Changes in Net Position. In addition to the imputed costs, HUD recorded a net benefit expense totaling $247 million for FY 2018 and $248 million for FY 2017.

HUD accrues the portion of the estimated liability for disability benefits assigned to the agency under the FECA, administered and determined by the DOL. The liability, based on the net present value of estimated future payments based on a study conducted by DOL, was $63 million as of September 30, 2018 and $65 million as of September 30, 2017. Future payments on this liability are to be funded by future financing sources.

Note 15: Other Liabilities

The following shows HUD's Other Liabilities as of September 30, 2018 and 2017:

(In Millions)	2018 Non Current	2018 Current	2018 Total
Intragovernmental Liabilities			
FHA Special Receipt Account Liability	$-	$2,787	$2,787
Unfunded FECA Liability	13	-	13
Employer Contributions and Payroll Taxes Payable	-	9	9
Miscellaneous Receipts Payable to Treasury	-	324	324
Advances to Federal Agencies	-	9	9
Intragovernmental Other Liabilities	**$13**	**$3,129**	**$3,142**
Other Liabilities			
FHA Other Liabilities	$-	$290	$290
FHA Escrow Funds Related to Mortgage Notes Current	-	291	291
Ginnie Mae Deferred Income	446	25	471
Deferred Credits	-	2	2
Deposit Funds	1	10	11
Accrued Unfunded Annual Leave	76	-	76
Accrued Funded Payroll Benefits	-	33	33
Contingent Liability	-	-	-
Other	7	4	11
Total	**$543**	**$3,784**	**$4,327**

(In Millions)	2017 (Restated) Non Current	2017 (Restated) Current	2017 (Restated) Total
Intragovernmental Liabilities			
FHA Special Receipt Account Liability[40]	$-	$1,734	$1,734
Unfunded FECA Liability	14	-	14
Employer Contributions and Payroll Taxes Payable	-	9	9
Miscellaneous Receipts Payable to Treasury	-	351	351
Advances to Federal Agencies	-	14	14
Intragovernmental Other Liabilities	**$14**	**$2,108**	**$2,122**
Other Liabilities			
FHA Other Liabilities	$-	$340	$340
FHA Escrow Funds Related to Mortgage Notes Current	-	296	296
Ginnie Mae Deferred Income	436	26	462
Deferred Credits	-	2	2
Deposit Funds	-	14	14
Accrued Unfunded Annual Leave	76	-	76
Accrued Funded Payroll Benefits	-	33	33
Contingent Liability[41]	55	-	55
Other	8	9	17
Total	**$589**	**$2,828**	**$3,417**

[40] FHA's correction of the discounting rate error caused a cohort in the General Insurance to go from a upward to a downward re-estimate. The downward-re-estimate created a payable to Treasury. The FHA Special Receipt Account Liability under the Current column increased from $1,673 million to $1,734 million with net effect of $61 million.

[41] In HUD's FY 2017 year-end legal letter, a case was noted as set to be paid out through the Treasury Judgement Fund. HUD corrected its Contingent Liability for FY 2017, as it was overstated by $136 million. The Contingent Liability under the Non-Current column line decreased from $192 million to $55 million with net effect of $136 million.

Special Receipt Account Liability

The special receipt account liability is created from negative subsidy endorsements and downward credit subsidy in the GI/SRI special receipt account.

Other Liabilities

As of September 30, 2018, FHA's Other Liabilities consisted of liabilities for premiums collected on unendorsed cases of $212 million and miscellaneous liabilities of $78 million, which include disbursements in transit and unearned premium revenue. In addition, FHA had liabilities for escrow funds related to mortgage notes totaling $291 million. As of September 30, 2017, FHA premiums collected on unendorsed cases were $243 million, miscellaneous liabilities were $97 million, and escrow funds related to mortgage notes were $296 million. Premiums collected for unendorsed cases represent liabilities associated with premiums collections for cases that have yet to be endorsed.

Other liabilities currently consist mostly of suspense funds, receipt accruals, and payroll-related costs. Other liabilities non-current is Ginnie Mae's Banco Popular liability for potential loan portfolio representation and warranty issues. Ginnie Mae may enter into business transactions and agreements, such as the sale of an MSR or loan portfolio, which provide certain representations and warranties associated with underlying loans. If there is a breach of these contractual obligations, Ginnie Mae may be required to repurchase certain loans or provide other compensation.

Note 16: Contingencies

Lawsuits and Other

HUD is party to a number of claims and tort actions related to lawsuits brought against it concerning the implementation or operation of its various programs. The Department recorded a contingent liability in its financial statements of $0 as of September 30, 2018 and $55[42] million as of September 30, 2017. HUD is party to various other cases currently listed below as "reasonably possible":

- Boaz Housing Authority – $132.5 million
- Housing Authority of the City of New Haven – $22.3 million
- Park Properties Associates (amount of loss unknown) – $7.8 million is amount claimed
- San Antonio Housing Authority – $2.8 million
- Anaheim Gardens (amount of loss unknown)

[42] In HUD's FY 2017 year-end legal letter, a case was noted as set to be paid out through the Treasury Judgement Fund. HUD corrected its Contingent Liability for FY 2017, as it was overstated by $136M. The Commitments and Contingencies line decreased from $192M to $55M with net effect of ($136M).

If HUD receives an adverse decision on Boaz Housing Authority, Housing Authority of the City of New Haven, and San Antonio Housing Authority, then these payments will be made from Treasury's Judgment Fund. Other ongoing suits cannot be reasonably determined at this time, and in the opinion of management and general counsel, the ultimate resolution of the other pending litigation will not have a material effect on the Department's financial statements.

The general counsel has reviewed FHA's and Ginnie Mae's claims for FY 2018 and determined that as of September 30, 2018 and 2017, the ultimate resolution of legal actions would not affect HUD's consolidated financial statements. As a result, no contingent liability has been recorded for FHA. In addition, Ginnie Mae has concluded that they have no contingent liabilities as of September 30, 2018.

MBS Loss Liability

Liability for loss on MBS program guaranty (MBS loss liability) represents the loss contingency that arises from the guaranty obligation that Ginnie Mae has to the MBS holders due to probable issuer default and/or loan default. As of September 30, 2018, Ginnie Mae recorded loss reserves of $21.4 million, and $268.4 million in 2017. The issuers have the obligation to make timely principal and interest payments to MBS certificate holders. However, in the event whereby the issuer and/or loan defaults, Ginnie Mae steps in and continues to make the contractual payments to investors. The contingent aspect of the guarantee is measured under ASC Subtopic 450-20, Contingencies – Loss Contingencies.

Ginnie Mae's OER utilizes the issuer risk grade model to assist in the analysis of potential defaults. The issuer risk grade model assigns each issuer an internal risk grade using an internally developed proprietary risk-rating methodology. The objective of the methodology is to identify those Ginnie Mae issuers that display an elevated likelihood of default relative to their peers. To this end, the methodology assigns each active issuer a risk grade ranging from one to eight, with one representing a low probability of default and eight representing an elevated probability of default. As the risk grade rating approaches an elevated probability of default, Ginnie Mae further evaluates the financial condition of the issuer and considers whether an accrual of the loss contingency is required.

Note 17: Funds from Dedicated Collections

Funds from dedicated collections are financed by specifically identified revenues and are required by statute to be used for designated activities or purposes.

Ginnie Mae

Ginnie Mae is a government corporation, whose MBS guarantee program's operations are funded by various off-setting collections, such as guaranty, commitment, multiclass, new issuer, civil penalty, servicing, and pool transfer fees. These collections are dedicated for Ginnie Mae use to administer its MBS guarantee program.

RAD Conversion Program

RAD conversion program was created in order to give PHAs a powerful tool to preserve and improve public housing properties and address a nationwide backlog of deferred maintenance. RAD also gives program owners the opportunity to enter into long-term contracts that facilitate the financing of improvements.

Rental Housing Assistance Fund

The Housing and Urban Development Act of 1968 authorized the Secretary to establish a revolving fund into which rental collections in excess of the established basic rents for units in Section 236 subsidized projects would be deposited. The Housing and Community Development Amendment of 1978 authorized the Secretary, subject to approval in appropriation acts, to transfer excess rent collections received after 1978 to the Troubled Projects Operating Subsidy Program, renamed the Flexible Subsidy Fund. Prior to that time, collections were used for paying tax and utility increases in Section 236 projects. The Housing and Community Development Act of 1980, amended the 1978 Amendment, authorizing the transfer of excess rent collections regardless of when collected.

Flexible Subsidy

The Flexible Subsidy Fund assists financially troubled subsidized projects under certain FHA authorities. The subsidies are intended to prevent potential losses to the FHA fund resulting from project insolvency, and to preserve these projects as a viable source of housing for low- and moderate-income tenants.

American Recovery and Reinvestment Act Programs (Recovery Act)

The Recovery Act included 17 programs at HUD which are distributed across three themes that align with the broader Recovery goals. A further discussion of HUD's accomplishments for the Recovery Act program can be found on the HUD website, specifically on the Recovery page. Previously, all programs were categorized as Funds from Dedicated Collections. In FY 2017, two programs (Working Capital Fund Recovery Act and Green Retrofit Program) were changed to Other Funds based on exclusions noted in SFFAS No. 27 Identifying and Reporting Dedicated Collections.

Manufactured Housing Fees Trust Fund

The National Manufactured Housing Construction and Safety Standards Act of 1974, as amended by the Manufactured Housing Improvement Act of 2000, authorizes development and enforcement of appropriate standards for the construction, design, and performance of manufactured homes to assure their quality, durability, affordability, and safety.

Fees are charged to the manufacturers for each manufactured home transportable section produced and will be used to fund the costs of all authorized activities necessary for the consensus committee (HUD) and its agents to carry out all aspects of the manufactured housing legislation. The fee receipts are permanently appropriated and have helped finance a portion of the direct administrative expenses incurred in program operations. Activities are initially financed via transfer from the Manufactured Housing General Fund.

(In Millions)	Ginnie Mae	Tenant Based Rental Assistance	Project Based Rental Assistance	Rental Housing Assistance	Flexible Subsidy	Manufactured Housing Fees Trust Fund	Recovery Act Funds	Other	Total Dedicated Collections (Combined)
	2018								
Balance Sheet									
Fund Balance with Treasury	$5,322	$36	$30	$13	$523	$25	$1	$-	$5,950
Cash and Monetary Assets	33	-	-	-	-	-	-	-	33
Investments	16,295	-	-	-	-	-	-	-	16,295
Accounts Receivable	158	-	-	4	-	-	-	-	162
Loans Receivable	-	-	-	-	352	-	-	-	352
Other Non-Credit Reform Loans Receivable	2,961	-	-	-	-	-	-	-	2,961
General Property, Plant and Equipment	86	-	-	-	-	-	-	-	86
Total Assets	**$24,855**	**$36**	**$30**	**$17**	**$875**	**$25**	**$1**	**$-**	**$25,839**
Debt - Intragovernmental	$-	$-	$-	$-	$-	$-	$-	$-	$-
Accounts Payable - Intragovernmental	23	-	-	-	-	-	-	-	23
Accounts Payable - Public	46	-	-	-	-	5	-	-	51
Loss Liability	21	-	-	-	-	-	-	-	21
Other Liabilities - Public	481	-	-	-	-	-	-	-	481
Total Liabilities	$571	$-	$-	$-	$-	$5	$-	$-	$576
Unexpended Appropriations	$-	$38	$30	$-	$(376)	$-	$-	$-	$(308)
Cumulative Results of Operations	24,284	(2)	-	17	1,251	20	1	-	25,571
Total Net Position	$24,284	$36	$30	$17	$875	$20	$1	$-	$25,263
Total Liabilities and Net Position	**$24,855**	**$36**	**$30**	**$17**	**$875**	**$25**	**$1**	**$-**	**$25,839**
Statement of Net Cost for the Period Ended									
Gross Costs	$69	$102	$65	$-	$(8)	$11	$(11)	$-	$228
Less Earned Revenues	(1,770)	-	-	-	(4)	(15)	-	-	(1,789)
Net Costs	**$(1,701)**	**$102**	**$65**	**$-**	**$(12)**	**$(4)**	**$(11)**	**$-**	**$(1,561)**
Statement of Changes in Net Position for the Period Ended									
Net Position Beginning of Period	$22,581	$22	$32	$15	$861	$16	$1	$-	$23,528
Correction of Errors	-	-	-	-	-	-	-	-	-
Appropriations Received	-	-	-	-	-	-	-	-	-
Transfers In/Out	-	116	63	-	-	-	-	-	179
Imputed Costs	1	-	-	-	-	-	-	-	1
Donations and Forfeitures	-	-	-	-	-	-	-	-	-
Penalties, Fines, and Administrative Fees Revenue	3	-	-	2	2	-	-	-	7
Other Adjustments	(2)	-	-	-	-	-	(11)	-	(13)
Net Costs	1,701	(102)	(65)	-	12	4	11	-	1,561
Change in Net Position	$1,703	$14	$(2)	$2	$14	$4	$-	$-	$1,735
Net Position End of Period	**$24,284**	**$36**	**$30**	**$17**	**$875**	**$20**	**$1**	**$-**	**$25,263**

(In Millions)	Ginnie Mae	Tenant Based Rental Assistance	Project Based Rental Assistance	Rental Housing Assistance	Flexible Subsidy	Manufactured Housing Fees Trust Fund	Recovery Act Funds	Other	Total Dedicated Collections (Combined)
	2017								
Balance Sheet									
Fund Balance with Treasury	$2,331	$22	$32	$11	$482	$18	$1	$-	$2,897
Cash and Monetary Assets	40	-	-	-	-	-	-	-	40
Investments	17,277	-	-	-	-	-	-	-	17,277
Accounts Receivable	159	-	-	4	-	-	-	-	163
Loans Receivable	-	-	-	-	379	-	-	-	379
Other Non-Credit Reform Loans Receivable	3,490	-	-	-	-	-	-	-	3,490
General Property, Plant and Equipment	88	-	-	-	-	-	-	-	88
Total Assets	**$23,385**	**$22**	**$32**	**$15**	**$861**	**$18**	**$1**	**$-**	**$24,334**
Debt - Intragovernmental	$-	$-	$-	$-	$-	$-	$-	$-	$-
Accounts Payable - Intragovernmental	11	-	-	-	-	-	-	-	11
Accounts Payable - Public	52	-	-	-	-	2	-	-	54
Loss Liability	269	-	-	-	-	-	-	-	269
Other Liabilities - Public	472	-	-	-	-	-	-	-	472
Total Liabilities	$804	$-	$-	$-	$-	$2	$-	$-	$806
Unexpended Appropriations	$-	$23	$32	$-	$(376)	$-	$-	$-	$(321)
Cumulative Results of Operations	22,581	(1)	-	15	1,237	16	1	-	23,849
Total Net Position	$22,581	$22	$32	$15	$861	$16	$1	$-	$23,528
Total Liabilities and Net Position	**$23,385**	**$22**	**$32**	**$15**	**$861**	**$18**	**$1**	**$-**	**$24,334**
Statement of Net Cost for the Period Ended									
Gross Costs	$582	$73	$49	$-	$(6)	$8	$-	$-	$706
Less Earned Revenues	(1,692)	-	-	-	(3)	(14)	-	-	(1,709)
Net Costs	**$(1,110)**	**$73**	**$49**	**$-**	**$(9)**	**$(6)**	**$-**	**$-**	**$(1,003)**
Statement of Changes in Net Position for the Period Ended									
Net Position Beginning of Period	$21,473	$12	$18	$14	$851	$10	$9	$-	$22,387
Correction of Errors	-	-	-	-	-	-	-	-	-
Appropriations Received	-	-	-	-	-	-	-	-	-
Transfers In/Out	-	83	63	-	-	-	-	-	146
Imputed Costs	1	-	-	-	-	-	-	-	1
Donations and Forfeitures	-	-	-	-	-	-	-	-	-
Penalties, Fines, and Administrative Fees Revenue	-	-	-	1	1	-	-	-	2
Other Adjustments	(3)	-	-	-	-	-	(8)	-	(11)
Net Costs	1,110	(73)	(49)	-	9	6	-	-	1,003
Change in Net Position	$1,108	$10	$14	$1	$10	$6	$(8)	$-	$1,141
Net Position End of Period	**$22,581**	**$22**	**$32**	**$15**	**$861**	**$16**	**$1**	**$-**	**$23,528**

Note 18: Legal Arrangements Affecting the Use of Unobligated Balances

Pursuant to Title III of the National Housing Act, Ginnie Mae collections from Commitment and Multiclass fees are credited to offsetting collections in the Program Account. The portion of Commitment and Multiclass fees collection in excess of the enacted amounts available of annual and/or no-year S&E spending are precluded from being available for obligation. The amount of Commitment and Multiclass fees precluded from obligation were $734 million and $634 million as of September 30, 2018 and 2017 respectively. The following table presents the precluded funds from obligation activities and balances for FY 2018 and FY 2017:

(In Millions)	2018	2017
Precluded Obligations Balance, Beginning	$634	$523
Collections	100	111
Precluded Obligations Balance, Ending	**$734**	**$634**

Note 19: Net Costs of HUD's Cross-Cutting Programs

This note provides a categorization of net costs for several major program areas whose costs were incurred among HUD's principal organizations previously discussed under Section 1 of the report. Costs incurred under HUD's other programs represent activities which support the Department's strategic goal to develop and preserve quality, healthy, and affordable homes.

The following table shows the cross-cutting of HUD's major program areas that incur costs that cross multiple program areas as of September 30, 2018 and 2017:

HUD's Cross Cutting Programs (In Millions)	2018				
	Public & Indian Housing	Housing	Community Planning & Development	Other	Consolidated
Section 8 Rental Assistance					
Intragovernmental Gross Costs	$77	$41	$-	$-	$118
Intragovernmental Earned Revenues	-	-	-	-	-
Intragovernmental Net Costs	$77	$41	$-	$-	$118
Gross Costs with the Public	21,804	11,761	83	4	33,652
Earned Revenues	-	-	-	-	-
Net Costs with the Public	$21,804	$11,761	$83	$4	$33,652
Net Program Costs	**$21,881**	**$11,802**	**$83**	**$4**	**$33,770**

Public and Indian Housing Loans and Grants (PIH)					
Intragovernmental Gross Costs	$15	$-	$-	$-	$15
Intragovernmental Earned Revenues	-	-	-	-	-
Intragovernmental Net Costs	$15	$-	$-	$-	$15
Gross Costs with the Public	2,583	-	-	-	2,583
Earned Revenues	-	-	-	-	-
Net Costs with the Public	$2,583	$-	$-	$-	$2,583
Net Program Costs	**$2,598**	**$-**	**$-**	**$-**	**$2,598**
Homeless Assistance Grants					
Intragovernmental Gross Costs	$-	$-	$5	$-	$5
Intragovernmental Earned Revenues	-	-	(1)	-	(1)
Intragovernmental Net Costs	$-	$-	$4	$-	$4
Gross Costs with the Public	-	-	2,081	-	2,081
Earned Revenues	-	-	-	-	-
Net Costs with the Public	$-	$-	$2,081	$-	$2,081
Net Program Costs	**$-**	**$-**	**$2,085**	**$-**	**$2,085**
Housing for the Elderly and Disabled					
Intragovernmental Gross Costs	$-	$4	$-	$-	$4
Intragovernmental Earned Revenues	-	-	-	-	-
Intragovernmental Net Costs	$-	$4	$-	$-	$4
Gross Costs with the Public	-	917	-	3	920
Earned Revenues	-	(1)	-	(73)	(74)
Net Costs with the Public	$-	$916	$-	$(70)	$846
Net Program Costs	**$-**	**$920**	**$-**	**$(70)**	**$850**
Community Development Block Grants (CDBG)					
Intragovernmental Gross Costs	$-	$-	$52	$-	$52
Intragovernmental Earned Revenues	-	-	-	-	-
Intragovernmental Net Costs	$-	$-	$52	$-	$52
Gross Costs with the Public	67	-	5,077	-	5,144
Earned Revenues	-	-	-	-	-
Net Costs with the Public	$67	$-	$5,077	$-	$5,144
Net Program Costs	**$67**	**$-**	**$5,129**	**$-**	**$5,196**

HOME					
Intragovernmental Gross Cost	$-	$-	$2	$-	$2
Intragovernmental Earned Revenues	-	-	-	-	-
Intragovernmental Net Costs	$-	$-	$2	$-	$2
Gross Costs with the Public	-	-	738	-	738
Earned Revenues	-	-	-	-	-
Net Costs with the Public	$-	$-	$738	$-	$738
Net Program Costs	**$-**	**$-**	**$740**	**$-**	**$740**
Other					
Intragovernmnetal Gross Costs	$78	$32	$32	$71	$213
Intragovernmental Earned Revenue	(12)	-	(1)	(7)	(20)
Intragovernmental Net Costs	$66	$32	$31	$64	$193
Gross Costs with the Public	4,756	300	542	(175)	5,423
Earned Revenues	-	(19)	-	-	(19)
Net Costs with the Public	$4,756	$281	$542	$(175)	$5,404
Net Program Costs	**$4,822**	**$313**	**$573**	**$(111)**	**$5,597**
Costs Not Assigned To Programs	**$98**	**$47**	**$57**	**$-**	**$202**
Net Program Costs (Including indirect costs)	**$4,920**	**$360**	**$630**	**$(111)**	**$5,799**
Eliminations					
Intragovernmnetal Gross Costs	$-	$-	$-	$-	$-
Intragovernmental Earned Revenue	-	-	-	-	-
Intragovernmental Net Costs	**$-**	**$-**	**$-**	**$-**	**$-**

Figures may not add to totals because of rounding.

HUD's Cross Cutting Programs (In Millions)	2017 (Restated) Public & Indian Housing	Housing	Community Planning & Development	Other	Consolidated[43]
Section 8 Rental Assistance					
Intragovernmental Gross Costs	$88	$150	$-	$(56)	$182
Intragovernmental Earned Revenues	-	-	-	-	-
Intragovernmental Net Costs	$88	$150	$-	$(56)	$182
Gross Costs with the Public	20,959	11,262	83	(18)	32,286
Earned Revenues	-	-	-	-	-
Net Costs with the Public	$20,959	$11,262	$83	$(18)	$32,286
Net Program Costs	**$21,047**	**$11,412**	**$83**	**$(74)**	**$32,468**
Public and Indian Housing Loans and Grants (PIH)					
Intragovernmental Gross Costs	$15	$-	$-	$-	$15
Intragovernmental Earned Revenues	-	-	-	-	-
Intragovernmental Net Costs	$15	$-	$-	$-	$15
Gross Costs with the Public	2,339	-	-	34	2,373
Earned Revenues	-	-	-	-	-
Net Costs with the Public	$2,339	$-	$-	$34	$2,373
Net Program Costs	**$2,354**	**$-**	**$-**	**$34**	**$2,388**
Homeless Assistance Grants					
Intragovernmental Gross Costs	$-	$-	$11	$-	$11
Intragovernmental Earned Revenues	-	-	(1)	-	(1)
Intragovernmental Net Costs	$-	$-	$10	$-	$10
Gross Costs with the Public	-	-	2,021	1	2,022
Earned Revenues	-	-	-	-	-
Net Costs with the Public	$-	$-	$2,021	$1	$2,022
Net Program Costs	**$-**	**$-**	**$2,031**	**$1**	**$2,032**
Housing for the Elderly and Disabled					
Intragovernmental Gross Costs	$-	$13	$-	$(4)	$9
Intragovernmental Earned Revenues	-	-	-	-	-
Intragovernmental Net Costs	$-	$13	$-	$(4)	$9
Gross Costs with the Public	-	920	1	(2)	919
Earned Revenues	-	(3)	-	(89)	(92)
Net Costs with the Public	$-	$917	$1	$(91)	$827
Net Program Costs	**$-**	**$930**	**$1**	**$(95)**	**$836**

[43] HUD corrected its FY 2017 cost allocation methodology to properly re-allocate FHA and Non-FHA expenses. As a result of the re-allocation, Non-FHA expenses experienced a net decrease of ($188 million).Additionally, a correction was made for a duplicate allocation of the Working Capital Fund (WCF) expenses which resulted in a net increase of $14 million. The net effect of both corrections was ($174 million).

Community Development Block Grants (CDBG)					
Intragovernmental Gross Costs	$-	$-	$50	$-	$50
Intragovernmental Earned Revenues	-	-	-	-	-
Intragovernmental Net Costs	$-	$-	$50	$-	$50
Gross Costs with the Public	61	-	5,638	11	5,710
Earned Revenues	-	-	-	-	-
Net Costs with the Public	$61	$-	$5,638	$11	$5,710
Net Program Costs	**$61**	**$-**	**$5,688**	**$11**	**$5,760**
HOME					
Intragovernmental Gross Cost	$-	$-	$4	$-	$4
Intragovernmental Earned Revenues	-	-	-	-	-
Intragovernmental Net Costs	$-	$-	$4	$-	$4
Gross Costs with the Public	-	-	1,070	-	1,070
Earned Revenues	-	-	-	-	-
Net Costs with the Public	$-	$-	$1,070	$-	$1,070
Net Program Costs	**$-**	**$-**	**$1,074**	**$-**	**$1,074**
Other					
Intragovernmnetal Gross Costs	$227	$97	$39	$46	$409
Intragovernmental Earned Revenue	(9)	(1)	(3)	(50)	(63)
Intragovernmental Net Costs	$218	$96	$36	$(4)	$346
Gross Costs with the Public	4,709	283	472	(94)	5,370
Earned Revenues	-	(18)	-	-	(18)
Net Costs with the Public	$4,709	$265	$472	$(94)	$5,352
Net Program Costs	**$4,927**	**$361**	**$508**	**$(98)**	**$5,698**
Costs Not Assigned To Programs	$62	$81	$42	$-	$185
Net Program Costs (Including indirect costs)	**$4,989**	**$442**	**$550**	**$(98)**	**$5,883**
Eliminations					
Intragovernmnetal Gross Costs	$-	$-	$-	$-	$-
Intragovernmental Earned Revenue	-	-	-	-	-
Intragovernmental Net Costs	**$-**	**$-**	**$-**	**$-**	**$-**

Figures may not add to totals because of rounding.

Note 20: Undelivered Orders and Commitments under HUD's Grant, Subsidy, and Loan Programs

Contractual Commitments

HUD has entered into extensive long-term commitments that consist of legally binding agreements to provide grants, subsidies, or loans. Commitments become liabilities when all actions required for payment under an agreement have occurred. The mechanism for funding subsidy commitments generally differs depending on whether the agreements were entered into before or after 1988.

With the exception of the Housing for the Elderly and Disabled and Low Rent Public Housing Loan Programs (which have been converted to grant programs), Section 235/236 Programs, and a portion of "All Other" programs, HUD management expects all of the programs to continue incurring new commitments under authority granted by Congress in future years. However, estimated future commitments under such new authority are not included in the amounts below.

Prior to fiscal year 1988, HUD's subsidy programs, primarily the Section 8 Program and Section 235/236 Programs, operated under contract authority. Each year, Congress provided HUD the authority to enter into multiyear contracts within annual and total contract limitation ceilings. HUD then drew on permanent indefinite appropriations to fund the current year's portion of those multiyear contracts. Because of the duration of these contracts (up to 40 years), significant authority existed to draw on the permanent indefinite appropriations. Beginning in FY 1988, the Section 8 and Section 235/236 Programs began operating under multiyear budget authority whereby the Congress appropriates the funds "up-front" for the entire contract term in the initial year.

HUD's commitment balances are based on the amount of unliquidated obligations recorded in HUD's accounting records with no provision for changes in future eligibility, and thus are equal to the maximum amounts available under existing agreements and contracts. Unexpended appropriations and cumulative results of operations shown in the BS is comprised of funds with Treasury which are available to fund existing commitments that were provided through "up-front" appropriations, and also include permanent, indefinite appropriations received in excess of amounts used to fund the pre-1988 subsidy contracts and offsetting collections.

FHA enters into long-term contracts for both program and administrative services. FHA funds these contractual obligations through unexpended appropriations, permanent, indefinite authority, and offsetting collections. The appropriated funds are primarily used to support administrative contract expenses while the permanent indefinite authority and the offsetting collections are used for program services. The permanent indefinite authority for FHA as of September 30, 2018 and 2017, was $86 million and $81 million, respectively. The offsetting collections for FHA's undelivered orders as of September 30, 2018 and 2017, were $2,612 million and $2,584 million, respectively. The offsetting collection for Ginnie Mae's undelivered orders as of September 30, 2018 and 2017, were $1,028 million and $679 million, respectively.

The following table shows HUD's unpaid obligations and contractual commitments under its grant, subsidy, and loan programs as of September 30, 2018 and 2017:

(In Millions)	2018 Federal	2018 Non-Federal	2018 Total	2017 Federal	2017 Non-Federal	2017 Total
Federal Housing Administration (FHA)	$31	$2,814	$2,845	$18	$2,790	$2,808
Government National Mortgage Association (GNMA)	103	925	1,028	91	588	679
Section 8 Rental Assistance	-	8,211	8,211	-	8,269	8,269
Public and Indian Housing Loans and Grants (PIH)	-	5,058	5,058	-	4,187	4,187
Homeless Assistance Grants	1	2,608	2,609	-	2,351	2,351
Housing for the Elderly and Disabled	2	1,250	1,252	2	1,386	1,388
Community Development Block Grants (CDBG)	-	21,712	21,712	-	14,755	14,755
HOME	17	2,856	2,873	17	2,121	2,138
Section 235 & 236 Other	-	443	443	-	592	592
All Other	96	2,984	3,080	91	2,318	2,409
Total	**$250**	**$48,861**	**$49,111**	**$219**	**$39,357**	**$39,576**

The following table shows HUD's paid obligations and contractual commitments under its grant, subsidy, and loan programs as of September 30, 2018 and 2017:

(In Millions)	2018 Federal	2018 Non-Federal	2018 Total	2017 Federal	2017 Non-Federal	2017 Total
Federal Housing Administration (FHA)	$-	$-	$-	$-	$-	$-
Government National Mortgage Association (GNMA)	-	-	-	-	-	-
Section 8 Rental Assistance	2	263	265	3	336	339
Public and Indian Housing Loans and Grants (PIH)	-	-	-	-	-	-
Homeless Assistance Grants	-	-	-	-	-	-
Housing for the Elderly and Disabled	-	-	-	-	-	-
Community Development Block Grants (CDBG)	-	-	-	-	-	-
HOME	-	-	-	-	-	-
Section 235 & 236 Other	-	-	-	-	-	-
All Other	45	-	45	18	-	18
Total	**$47**	**$263**	**$310**	**$21**	**$336**	**$357**

Administrative Commitments

In addition to the above contractual commitments, HUD has entered into administrative commitments which are the reservation of funds for specific projects (including those for which a contract has not yet been executed) to obligate all or part of those funds. Administrative commitments become contractual commitments upon contract execution. The following table shows HUD's administrative commitments as of September 30, 2018 and 2017:

(In Millions)	2018	2017
Federal Housing Administration (FHA)	$-	$-
Government National Mortgage Association (GNMA)	-	7
Section 8 Rental Assistance	96	91
Public and Indian Housing Loans and Grants (PIH)	19	31
Homeless Assistance Grants	153	278
Housing for the Elderly and Disabled	110	135
Community Development Block Grants (CDBG)	29,129	2,077
HOME	489	612
Section 235 & 236 Other	-	-
All Other	277	435
Total	**$30,273**	**$3,666**

Note 21: Apportionment Categories of Obligations Incurred

Budgetary resources are usually distributed in an account or fund by specific time periods, activities, projects, objects, or a combination of these categories. Resources apportioned by fiscal quarters are classified as Category A apportionments. Apportionments by any other category would be classified as Category B apportionments.

HUD's categories of obligations incurred as of September 30, 2018:

(In Millions)	Category A	Category B	Total
2018			
Direct	$954	$102,684	$103,638
Reimbursable	1	3,320	3,321
Total	**$955**	**$106,004**	**$106,959**

HUD's categories of obligations incurred as of September 30, 2017:

(In Millions)	Category A	Category B	Total
2017			
Direct	$1,041	$112,341	$113,382
Reimbursable	-	4,350	4,350
Total	**$1,041**	**$116,691**	**$117,732**

Note 22: Explanation of Differences between the Statement of Budgetary Resources and the Budget of the United States Government

The President's Budget containing actual FY 2018 data is not available for comparison to the SBR. Actual FY 2018 data will be available at a later date at https://www.whitehouse.gov/omb/budget/. For FY 2017, an analysis to compare HUD's SBR to the President's Budget of the U.S. was performed to identify any differences. The following shows the difference between Budgetary Resources to the President's Budget for FY 2017.

(In Millions)	Budgetary Resources	New Obligations and Upward Adjustments	Distributed Offsetting Receipts	Net Outlays
Per the FY 2017 Statement of Budgetary Resources (SBR)	$210,943	$117,731	$1,369	$47,969
Expired Funds in SBR not included in the Preseident's Budget	(1,062)	-	-	-
Offsetting receipts not included in the President's Budget	-	-	(236)	-
Timing difference related to the recordation of Borrowing Authority	-	-	-	-
Miscellaneous Differences	1	2	-	5
Budget of the U.S. Government	**$ 209,882**	**$117,733**	**$1,133**	**$47,974**

Note 23: Budget and Accrual Reconciliation

During FY 2018, FASAB issued Standards for Federal Financial Accounting Standard (SFFAS No. 53, Budget and Accrual Reconciliation) which requires a reconciliation of HUD's net outlays on a budgetary basis to its net cost of operations during the reporting period. The reconciliation, called the Budget and Accrual Reconciliation replaces the Statement of Financing (SOF) net disclosure, which reconciled the budgetary resources obligated (and some non-budgetary resources) and the net cost of operations. Although this standard is effective FY 2019, HUD chose the early adoption of the Budget and Accrual Reconciliation in FY 2018.

The Budget and Accrual Reconciliation for September 30, 2018 is as follows:

	2018		
(In Millions)	**Intragovernmental**	**With the Public**	**Total**
Net Operating Cost	$(379)	$40,928	$40,549
Components of Net Operating Cost Not Part of the Budgetary Outlays			
Property, plant, and equipment depreciation	-	(22)	(22)
Property, plant, and equipment disposal & reevaluation	-	-	-
Unrealized valuation loss/(gain) on investment in GSE's	-	-	-
Year-end credit reform subsidy re-estimates	-	-	-
Other	-	-	-
Increase/(decrease) in assets:			
Accounts receivable	-	(78)	(78)
Loans receivable	-	4,759	4,759
Other assets	27	(87)	(60)
Investments	140	(36)	104
(Increase)/Decrease in Liabilities not affecting Budgetary Outlays:			
Accounts payable	(23)	(25)	(48)
Salaries and benefits	-	-	-
Insurance and guarantee program liabilities	-	1,550	1,550
Environmental and disposal liabilities	-	-	-
Other liabilities (Unfunded leave, unfunded FECA, actuarial FECA)	(1,020)	1,363	343
Other Financing Sources			
Federal employee retirement benefit costs paid by OPM and imputed to agency	(75)	-	(75)
Transfers out (in) without reimbursement	4	-	4
Other imputed finance	-	-	-
Total Components of Net Operating Cost Not Part of the Budgetary Outlays	**$(947)**	**$7,424**	**$6,477**
Components of the Budgetary Outlays That Are Not Part of Net Operating Cost			
Effect of prior year agencies credit reform subsidy re-estimate	-	-	-
Acquisition of capital assets	-	32	32
Acquisition of inventory	-	-	-
Acquisition of other assets	-	-	-
Debt and equity securities	-	-	-
Other	2,731	(329)	2,402
Total Components of the Budgetary Outlays That Are Not Part of Net Operating Cost	**$2,731**	**$(297)**	**$2,434**
Other Temporary Timing Differences	(1,713)	-	(1,713)
Total Other Temporary Timing Differences	**$(1,713)**	**$-**	**$(1,713)**
Net Outlays (Calculated Total)	**$(308)**	**$48,055**	**$47,747**
Related Amounts on the Statement of Budgetary Resources			
Outlays, Net (Total) (discretionary and mandatory) (SBR 4190)			$49,295
Distributed offsetting receipts (SBR 4200)			(1,548)
Outlays, Net (SBR 4210)	**$-**	**$-**	**$47,747**

Note 24: Restatement of the Department's Fiscal Year 2017 Financial Statements and Notes

Restatement of Fiscal Year 2017 Financial Statements

In FY 2018, FHA corrected material misstatements to recognize the effects of a discounting error in the HECM ROA cash flow model used to calculate the recovery rate applied to the annual financial statement re-estimate. FHA discovered that it improperly discounted the cash flows in the HECM ROA model back to the cohort year of endorsement, instead of discounting back to the year of forecast, September 30, 2017, which resulted in the rates for the return on note assets to be lower, leading to less favorable estimates of FHA's financial performance. This adjustment also caused a cohort in the GI fund to go from an upward re-estimate to a downward re-estimate. The downward re-estimate in the GI fund created a payable to Treasury. This correction impacted the BS, the SNC and the SCNP and related notes. The BS was understated on the Direct Loan and Loan Guarantees line by $1,696 million and understated on the Other Liabilities line in the amount of $ 61 million. The SNC was overstated on the Gross Cost line by $1,696 million. The SCNP was overstated on the Net Cost of Operations line by $1,696 million and understated on the Other Financing Resources line by $ 61 million. HUD's Notes 2 Non-Entity Assets, 7 Direct Loan and Loan Guarantees, 12 Liabilities Not Covered by Budgetary Resources, and 15 Other Liabilities were impacted.

In FY 2018, to be consistent with *OMB Circular A-136*, FHA combined the Subsidy and Interest Expense components in its FHA Note 7 Schedule for Reconciling Loan Guarantee Liability Balances and Schedule for Reconciling Subsidy Cost Allowance Balances. *OMB Circular A-136* illustrative guidance supports the combined presentation. In FY 2017, FHA presented its Technical Re-Estimate Subsidy Expense and Interest components as two separate line items in HUD's Note. This presentation change caused parts of HUD's Note 7 Direct Loan and Loan Guarantees to be understated for FY 2017 by $3 million and $5,989 million, respectively. In conjunction with the Re-estimate presentation change, FHA changed its presentation of the Pre-Credit Reform LLR, as it appeared in Note 7 Direct Loans and Loan Guarantees, Non-Federal Borrowers, specifically the *Schedule for Reconciling Loan Guarantee Liability Balances.* FHA reclassified $8 million from the LLR Technical Default Re-estimate to LLR Adjustments Other line. Additionally, in Note 7, FHA reduced its FY 2017 prior year (PY) Credit Subsidy Re-estimates by $24 thousand to correct a carryover error from PYs.

The Department corrected a material misstatement in Note 7 Direct Loans and Loan Guarantees on the Subsidy Expense for Loan Guarantees-FHA's GI/SRI Funds line. This line was overstated by $250,903 million due to a mathematical error. The correction was captured in FHA's Standalone Note 7 in FY 2017. The adjustment was not captured in the HUD Consolidated Note 7 Direct Loan and Loan Guarantees in FY 2017; the information was not received until mid- November 2017 after the consolidated FS and Notes were completed.

In FY 2018, under the Sub-ledger to GL clean-up initiative, an analysis was performed using HUD's program office reports (sub-ledger) to Oracle (general ledger) to determine the amount of the loan guarantee level by cohort. The analysis determined that a net decrease in the amount of $179 million was needed to be applied to Outstanding Principal Guaranteed in Note 7 Direct Loan and Loan Guarantees for FY 2017. HUD's programs impacted were Section 108 Loan Guarantee and Section 184A Native Hawaiian Housing Loan Guarantee. Section 108 was overstated by $191 million and Section 184A was understated by $12 million. As a result of these adjustments posted in Oracle, the loan guarantee levels tie to the program office reports.

The Department corrected an allocation issue identified by OIG, FHA, and OCFO Accounting dealing with FY 2017 Cost Allocation methodology and entries. The correction was to accurately reflect the allocation of indirect costs within the Office of Housing. In FY 2017, $188 million was allocated primarily to the Non-FHA component but should have been allocated to the FHA component. This misstatement impacted the consolidated SNC's Gross Costs and Cost not Assigned to Program lines. The FHA cylinder was understated by $188 million. The Housing Non-FHA cylinders (Section 8, HED, and Other) were overstated in total by $188 million. The overall impact to the consolidated SNC and SCNP was zero. The consolidated SCNP had no overall impact since the presentation is not broken out by cylinders. HUD's Note 19 Net Costs of HUD's Cross-Cutting Programs was impacted by the $188 million for Section 8, HED, and Other; this Note only includes the HUD Proper component. OCFO corrected a duplicate allocation of the Working Capital Fund (WCF) expenses in the amount of $42 million. This duplicate allocation overstated expenses in FHA by $14 million and HUD Proper by $28 million. The duplication impacted the consolidated SNC Gross Costs line for FHA and HUD Proper. The overall impact to the consolidated SNC and SCNP was zero.

In FY 2018, the Department identified a prior year accounting crosswalk error in Note 3 Status of Fund Balance with Treasury; the total net impact of the error is zero. The error required reclassifications between the Unobligated Balance Available, Unobligated Balance Unavailable, and Obligated Balance not yet Disbursed. In FY 2017, the Unobligated Balance Available was overstated by $476 million, the Unobligated Balance Unavailable was overstated by $75 million, and the Obligated Balance not yet Disbursed was understated by $551 million. Additionally, the Department identified another reclassification in Note 5

Investments in Private-Sector Entities in the amount of $13 million to properly align with FHA's FY 2017 Note 5. The $13 million has been reclassified under the Net Acquisition column from Risk Sharing Debentures to Securities Held Outside of Treasury for FY 2017.

The Department corrected a material misstatement identified by OIG in Note 16 Contingencies. The year-end FY 2017 Management Schedules had verbiage stating that the Public Housing Authorities Directors Association lawsuit against HUD would be paid out through the Treasury Judgment Fund. HUD did not remove the contingent liability and record the imputed cost. The BS's Other Liabilities and Commitments and Contingencies lines were overstated and the SCNP's Imputed Financing-All Other line was understated by $136 million. HUD's Note 12 Liabilities Not Covered by Budgetary Resources "Public-Other Liabilities" line was overstated by $136 million. Note 15 Other Liabilities "Contingent Liability" line under the "Current" column was overstated by $136 millions. Finally, Note 16 Contingencies was overstated by $136 million in FY 2017.

Due to data limitations, Ginnie Mae is unable to report its non-pooled loan portfolio balances in compliance with GAAP requirements for FYs 2018 and 2017. Ginnie Mae misapplied accounting principles related to loan impairment guidance, which caused inappropriate values to be considered in calculating the loan loss allowance. Ginnie Mae made progress to improve the accounts for non pooled management loan portfolio in 2018. Management will assess the financial statements balances related to non-pooled assets in FY 2019, which may result in restatements.

U.S. Department of Housing And Urban Development
Balance Sheet (Restated)
As of September 30, 2017

(In Millions)	September 2017 Consolidated Financial Statements (without Restatement)	September 2017 Consolidated Financial Statements (with Restatement)	Impact of September 2017 Restatements
Assets:			
Intragovernmental:			
Fund Balance with Treasury (Note 3)	$88,824	$88,824	$-
Investments (Note 5)	48,118	48,118	-
Other Assets (Note 11)	20	20	-
Total Intragovernmental	**$136,962**	**$136,962**	**$-**
Cash and Other Monetary Assets (Note 4)	$81	$81	$-
Investments (Note 5)	44	44	-
Accounts Receivable, Net (Note 6)	726	726	-
Direct Loans and Loan Guarantees (Note 7)	20,250	21,946	(1,696)
Other Non-Credit Reform Loans (Note 8)	2,940	2,940	-
General Property, Plant, and Equipment, Net (Note 9)	412	412	-
PIH Prepayments (Note 10)	337	337	-
Total Assets	**$161,752**	**$163,448**	**$(1,696)**
Liabilities (Note 12):			
Intragovernmental:			
Accounts Payable	$26	$26	$-
Debt (Note 13)	29,269	29,269	-
Other Liabilities (Note 15)	2,061	2,122	(61)
Total Intragovernmental Liabilities	**$31,356**	**$31,417**	**$(61)**
Accounts Payable	$1,000	$1,000	$-
Accrued Grant Liabilities	2,503	2,503	-
Loan Guarantee Liability (Note 7)	20,334	20,334	-
Debt Held by the Public (Note 13)	2	2	-
Federal Employee and Veteran Benefits (Note 14)	65	65	-
Loss Reserves (Note 16)	268	268	-
Other Liabilities (Note 15)	1,432	1,295	137
Total Liabilities	**$56,960**	**$56,884**	**$76**
Commitments and Contingencies (Note 16)	$192	$55	$137
Net Position:	0	0	0
Unexpended Appropriations - Funds from Dedicated Collections (Combined Totals) (Note 17)	$(321)	$(321)	$-
Unexpended Appropriations - All Other Funds (Combined Totals)	53,484	53,484	-
Cumulative Results of Operations - Funds From Dedicated Collections (Combined Totals) (Note 17)	23,849	23,849	-
Cumulative Results of Operations - All Other Funds (Combined Totals)	27,780	29,552	(1,772)
Total Net Position - Funds from Dedicated Collections (Combined Totals) (Note 17)	**23,528**	**23,528**	**-**
Total Net Position - All Other Funds (Combined Totals)	**81,264**	**83,036**	**(1,772)**
Total Net Position	**104,792**	**106,564**	**(1,772)**
Total Liabilities and Net Position	**$161,752**	**$163,448**	**$(1,696)**

Figures may not add to totals because of rounding.

U.S. Department of Housing And Urban Development
Statement of Net Cost (Restated)
For the Year Ended September 30, 2017

(In Millions)	September 2017 Consolidated Financial Statements (without Restatement)	September 2017 Consolidated Financial Statements (with Restatement)	Impact of September 2017 Restatements
COSTS			
Federal Housing Administration (FHA)			
Gross Costs	$20,855	$19,333	$1,522
Less: Earned Revenue	(1,752)	(1,752)	-
Net Program Costs	19,103	17,581	1,522
Government National Mortgage Association (GNMA)			
Gross Costs	$582	$582	$-
Less: Earned Revenue	(1,692)	(1,692)	-
Net Program Costs	(1,110)	(1,110)	-
Section 8 Rental Assistance			
Gross Costs	$32,600	$32,468	$132
Less: Earned Revenue	-	-	-
Net Program Costs	32,600	32,468	132
Public and Indian Housing Loans and Grants (PIH)			
Gross Costs	$2,389	$2,388	$1
Less: Earned Revenue	(1)	(1)	-
Net Program Costs	2,388	2,387	1
Homeless Assistance Grants			
Gross Costs	$2,033	$2,032	$1
Less: Earned Revenue	(1)	(1)	-
Net Program Costs	2,032	2,031	1
Housing for the Elderly and Disabled			
Gross Costs	$935	$928	$7
Less: Earned Revenue	(92)	(92)	-
Net Program Costs	843	836	7
Community Development Block Grants (CDBG)			
Gross Costs	$5,764	$5,760	$4
Less: Earned Revenue	-	-	-
Net Program Costs	5,764	5,760	4
HOME			
Gross Costs	$1,074	$1,073	$1
Less: Earned Revenue	-	-	-
Net Program Costs	1,074	1,073	1
All Other			
Gross Costs	$5,765	$5,737	$28
Less: Earned Revenue	(34)	(34)	-
Net Program Costs	5,731	5,703	28
Costs not Assigned to Programs	**185**	**185**	-
Consolidated			
Gross Costs	$72,182	$70,486	$1,696
Less: Earned Revenue	(3,572)	(3,572)	-
Net Cost of Operations	**$68,610**	**$66,914**	**$1,696**

Figures may not add to totals because of rounding.

U.S. Department of Housing And Urban Development
Statement of Changes in Net Position (Restated)
For the Year Ended September 30, 2017

(In Millions)	September 2017 Consolidated Financial Statements (without restatement)	September 2017 Consolidated Financial Statements (with restatement)	Impact of September 2017 Restatements
Unexpended Appropriations:			
Beginning Balances	$46,915	$46,915	$-
Adjustments:			
Beginning Balance, as Adjusted	$46,915	$46,915	$-
Budgetary Financing Sources:			
Appropriations Received	$62,048	$62,048	$-
Appropriations Transferred-in/out	1	1	-
Other Adjustments	(433)	(433)	-
Appropriations Used	(55,368)	(55,368)	-
Total Budgetary Financing Sources	$6,248	$6,248	$-
Total Unexpended Appropriations	**$53,163**	**$53,163**	**$-**
Cumulative Results from Operations:			
Beginning Balances	$65,335	$65,335	$-
Beginning Balances, as Adjusted	$65,335	$65,335	$-
Budgetary Financing Sources:			
Other Adjustments	$(3)	$(3)	$-
Appropriations Used	55,368	55,368	-
Nonexchange Revenue	253	253	-
Transfers-in/out without Reimbursement	(2)	(2)	-
Other	-	(174)	174
Other Financing Sources (Nonexchange):			
Transfers-in/out without Reimbursement	-	174	(174)
Imputed Financing	54	191	(137)
Other	(766)	(827)	61
Total Financing Sources	54,904	54,980	(76)
Net Cost of Operations	(68,610)	(66,914)	(1,696)
Net Change	(13,706)	(11,934)	(1,772)
Cumulative Results of Operations	**51,629**	**53,401**	**(1,772)**
Net Position	**$104,792**	**$106,564**	**$(1,772)**

Figures may not add to totals because of rounding.

Required Supplementary Stewardship Information (RSSI)

Introduction

This narrative provides information on resources utilized by HUD that do not meet the criteria for information required to be reported or audited in HUD's financial statements but are, nonetheless, important to understand investments made by HUD for the benefit of the nation. The stewardship objective requires that HUD also report on the broad outcomes of its actions associated with these resources. Such reporting will provide information that will help the reader to better assess the impact of HUD's operations and activities.

HUD's stewardship reporting responsibilities extend to the investments made by a number of HUD programs in Non-Federal Physical Property, Human Capital, and Research and Development. Due to the relative immateriality of the amounts and in the application of the related administrative costs, most of the investments reported reflect direct program costs only. The investments addressed in this narrative are attributable to programs administered through the following divisions/departments:

- Community Planning and Development (CPD),
- Public and Indian Housing (PIH), and
- Office of Lead Hazard Control and Healthy Homes (OLHCHH).

Overview of HUD's Major Programs

CPD seeks to develop viable communities by promoting integrated approaches that provide decent housing, a suitable living environment, and expanded economic opportunities for low- and moderate-income persons. HUD makes stewardship investments through the following CPD programs:

- **CDBG** are provided to state and local communities, which use these funds to support a wide variety of community development activities within their jurisdictions. These activities are designed to benefit low- and moderate-income persons, aid in the prevention of slums and blight, and meet other urgent community development needs. State and local communities use the funds as they deem necessary, as long as the use of these funds meet at least one of these objectives. A portion of the funds supports the acquisition, construction or rehabilitation of permanent, residential structures that qualify as occupied by and benefiting low- and moderate-income persons, while other funds help to provide employment and job training to low- and moderate-income persons.

- **Disaster Grants/CDBG-DR** is a CDBG program that helps state and local governments recover from major natural disasters. A portion of these funds can be used to acquire, rehabilitate, construct, or demolish physical property.
- **HOME** provides formula grants to states and localities (used often in partnership with local nonprofit groups) to fund a wide range of activities that build, buy, and/or rehabilitate affordable housing for low-income persons.
- **Homeless – CoC** The Supportive Housing Program (SHP) was repealed and replaced by the CoC Program effective FY 2012. The CoC is a body of stakeholders in a specific geographic area that plans and implements homeless assistance strategies (including the coordination of resources) to address the critical needs of homeless persons and facilitate their transition to jobs and independent living.
- **Emergency Solutions Grants (ESG)** provide formula funding to local units of government for homelessness prevention and to improve the number and quality of emergency and transitional shelters for homeless individuals and families.
- **NSP** stabilizes communities that have suffered from foreclosures and abandonment. This includes providing technical assistance (NSP TA) as well as the purchase and redevelopment of foreclosed and abandoned homes and residential properties.
- **Housing Opportunities for People with HIV/AIDS** provides education assistance and an array of housing subsidy assistance and supportive services to assist low-income families and individuals who are living with the challenges of HIV/AIDS and risks of homelessness.
- **Rural Innovation Fund** offers grants throughout the nation to address distressed housing conditions and concentrated poverty. The grants promote an 'entrepreneurial approach' to affordable housing and economic development in rural areas by providing job training, homeownership counseling, and affordable housing to residents of rural and tribal communities.
- **Community Compass (formerly One CPD)** provides technical assistance and capacity building to CPD grantees including onsite and remote training, workshops, and 1:1 assistance.

PIH ensures safe, decent, and affordable housing, creates opportunities for residents' self-sufficiency and economic independence, and assures the fiscal integrity of all program participants. HUD makes stewardship investments through the following PIH programs:

- **Indian Community Development Block Grants (ICDBG)** provide funds to Indian organizations to develop viable communities, including decent housing, a suitable living environment, and economic opportunities, principally for low and moderate-income recipients.
- **The Native Hawaiian Housing Block Grant (NHHBG)** program provides an annual block grant to the Department of Hawaiian Home Lands (DHHL) for a range of affordable housing activities to benefit low-income Native Hawaiians eligible to reside on the Hawaiian home lands. The DHHL has the authority under the NHHBG program to develop new and innovative affordable housing initiatives and programs based on local needs, including down payment and other mortgage assistance programs, transitional housing, domestic abuse shelters, and revolving loan funds.
- **IHBG** provide funds needed to allow tribal housing organizations to maintain existing units and to begin development of new units to meet their critical long-term housing needs.
- **HOPE VI Revitalization Grants (HOPE VI)** provide support for the improvement of the living environment of public housing residents in distressed public housing units. Some investments support the acquisition, construction or rehabilitation of property owned by the PHA, state or local governments, while others help to provide education and job training to residents of the communities targeted for rehabilitation.
- **Choice Neighborhoods** grants transform distressed neighborhoods and public and assisted projects into viable and sustainable mixed-income neighborhoods by linking housing improvements with appropriate services, schools, public assets, transportation, and access to jobs.
- **The PH Capital Fund** provides grants to PHAs to improve the physical conditions and to upgrade the management and operation of existing public housing.

OLHCHH program seeks to eliminate childhood lead poisoning caused by lead-based paint hazards and to address other childhood diseases and injuries, such as asthma, unintentional injury, and carbon monoxide poisoning, caused by substandard housing conditions.

- **The Lead Technical Assistance Division,** in support of the Departmental Lead Hazard Control program, supports technical assistance and the conduct of technical studies and demonstrations to identify innovative methods to create lead-safe housing at reduced cost. In addition, these programs are designed to increase the awareness of lead professionals, parents, building owners, housing and public health professionals, and others with respect to lead-based paint and related property-based health issues.

- **Lead Hazard Control Grants** help state and local governments and private organizations and firms control lead-based paint hazards in low-income, privately owned rental, and owner-occupied housing. The grants build program and local capacity and generate training opportunities and contracts for low-income residents and businesses in targeted areas.

Required Supplementary Stewardship Information (RSSI) Reporting – HUD's Major Programs

Non-Federal Physical Property

Investment in Non-Federal Physical Property: Non-Federal physical property investments support the purchase, construction, or major renovation of physical property owned by state and local governments. These investments support HUD's strategic goals to increase the availability of decent, safe, and affordable housing and to strengthen communities. Through these investments, HUD serves to improve the quality of life and economic vitality. The table below summarizes material program investments in Non-Federal Physical Property for fiscal years 2014 through 2018.

Investments in Non-Federal Physical Property
Fiscal Year 2014 – 2018
(In Millions)

Program	2014	2015	2016	20167	2018
CPD					
CDBG	$986	$922	$996	$992	$1,068
Disaster Grants[44]	323	398	386	289	281
HOME	24	18	14	10	9
SHP/CoC - Homeless[45]	1	-	3	2	-
NSP[46]	1	1	1	$-	1
RIF[47]	1	-	-	$-	-
PIH					
ICDBG[48]	$56	$59	$57	$55	$-
NHHBG	10	9	-	2	2
IHBG[49]	253	312	242	280	170
HOPE VI[50]	17	28	12	27	13
Choice Neighborhoods	22	43	70	49	48
PH Capital Fund	1,706	1,916	1,830	1,698	1,792
TOTAL	$3,400	$3,706	$3,611	$3,404	$3,384

44 Disasters are unpredictable, which causes material fluctuations. Grantees make action plan amendments which results in adjustments to DRGR. This and differences in the timeliness of reporting results in the prior years' numbers being updated.

45 In the FY 2017 CoC Competition, which is the most recent data provided in this report, no funding was awarded for new capital projects.

46 FY 2017 amount was not material to be included in the AFR. FY 2018 DRGR introduced a new status for NSP grants, closed with Program Income. Grantees are expending the PI from these closed grants. This program will continue for approximately five years.

47 Amount reported for FY 2015 is not material to be included in the AFR. More than 15 grantees completed their projects before FY 2015 as the grant period drew to a close. The final reporting period for the RIF program was September 30, 2015.

48 Amounts here are reported under the fiscal year in which they were appropriated, not necessarily the fiscal year in which they were awarded or expended. Grants funded in FY 2018 were not awarded until FY 2019, as Office of Native American Programs is putting a 2- year NOFA through clearance.

49 Historical amounts were updated to reflect corrections made since the last report. Amounts expended vary from year to year because annual grant amounts vary depending on funding levels, and grantees are free to expend funds on whatever activities address their current priorities

50 The final HOPE VI appropriation was in 2011. Except for grants awarded before 2001, all HOPE VI funds have been expended or have been canceled and returned to Treasury. Obligations will decrease each year until all HOPE VI grants have exhausted all funds. Due to a change in methodology, the amounts from FY 2014 through FY 2017 have been revised.

Human Capital

Investment in Human Capital: Human Capital investments support education and training programs that are intended to increase or maintain national economic productive capacity. These investments support HUD's strategic goals, which are to promote self-sufficiency and asset development of families and individuals; improve community quality of life and economic vitality; and ensure public trust in HUD. The following table summarizes material program investments in Human Capital, for fiscal years 2014 through 2018.

Investments in Human Capital
Fiscal Year 2014 – 2018
(In Millions)

Program	2014	2015	2016	2017	2018
CPD					
CDBG	$26	$25	$21	$32	$30
Disaster Grants[51]	750	347	386	251	232
ESG	3	3	3	5	4
SHP/CoC - Homeless	26	25	16	15	14
HOPWA [52]	1	-	-	-	-
Community Compass[53]	29	38	48	54	46
PIH					
IHBG[54]	$1	$2	$1	$8	$4
HOPE VI[55]	-	8	5	4	1
Choice Neighborhoods[56]	3	5	12	9	12
OLHCHH					
Lead Technical Assistance	$1	$-	$-	$-	$-
TOTAL	$840	$453	$492	$378	$343

[51] New grantees received significant TA in FY 2016. In FY 2017, they are well established, hence the decrease. Homeownership Assistance for LMI is not being included in the training data.

[52] Expenditures in FY 2015 through FY 2018 are not material to be included in the AFR.

[53] The decrease in FY 2018 aligns with training data below where the program saw an increase of online self-paced trainings which do not incur costs.

[54] In FY 2017 and FY 2018, ONAP focused on providing much more contracted technical assistance directly to tribes at their locations. There was a decrease in grantee demand for technical assistances and new training development in FY 2018 relative to FY 2017, which resulted in decreased expenditures.

[55] Except for grants awarded before 2001, all HOPE VI funds have been expended or have been canceled and returned to Treasury. Future expenditures will decrease until all grants have expended all funds. Due to a change in methodology, the amounts from FY 2014 through FY 2017 have been revised.

[56] In FY 2018, an additional five grantees have begun to report development expenditures after being awarded a grant in 2017. Typically, there is a lag of time of 6 months to a year from the time of grant award to the time that physical development can start.

Results of Human Capital Investments: The following table presents the results (number of people trained) of human capital investments made by HUD's CPD, PIH, and OLHCHH programs for FYs 2014 through 2018.

Investments in Human Capital
Number of People Trained
Fiscal Year 2014 – 2018

Program	2014	2015	2016	2017	2018
CPD					
CDBG	$26	$25	$21	$32	$30
SHP/CoC - Homeless[57]	750	347	386	251	232
HOPWA	3	3	3	5	4
NSP TA[58]	26	25	16	15	14
RIF[59]	1	-	-	-	-
Community Compass	29	38	48	54	46
PIH					
NHHBG[60]	$1	$2	$1	$8	$4
IHBG[61]	-	8	5	4	1
HOPE VI (see table on pages 125 and 126)	3	5	12	9	12
Choice Neighborhoods (see table on page 126)					
OLHCHH					
Lead Technical Assistance[62]	$1	$-	$-	$-	$-
TOTAL	$840	$453	$492	$378	$343

57 SHP/CoC – Homeless results are expressed in terms of percentage of persons exiting the programs having employment income. FY 2015 – FY 2018: Goals are changing, and the data is not available to compare to the prior year based on the old goal.

58 In FY 2014, TA was separated from the NSP programs to capture all the resources required to produce training products. In FY 2014 and going forward, NSP will use the activity Public Services to capture the investment in human capital. This resulted in revisions to the amounts for FY 2014 and FY 2015. In FY 2014, NSP began closing these grants. Expenditures under investments for human capital, in FY 2014 through FY 2018, are not material to be included in the AFR.

59 More than 15 grantees completed their projects before FY 2015 as the grant period drew to a close. The final reporting period for the RIF program was September 30, 2015. Expenditures under investments for human capital, in FY 2014 through FY 2015, are not material to be included in the AFR.

60 A lack of S&E funding prevented ONAP from offering training in FY 2014-2015. Grantee received training from HUD staff and, in FY 2016, from two contracted training providers. In FY 2017 and FY 2018, ONAP focused on providing technical assistance directly to the grantee. Expenditures under investments for human capital, in FY 2016 through FY 2018, are not material to be included in the AFR.

61 New training funds were offered through a NOFA competition for contractors to provide training in FY 2015 through FY 2018. Fewer grantees attended trainings in FY 2018 versus FY 2017, some of which can be attributed to grantee increasingly forgoing travel in order to save money for IHBG construction and program administration.

62 In FY 2018, the OLHCHH hosted its National Healthy Homes Conference, Program Mgrs. school, and New Grantee Orientation. There were 1,500 people trained at the National Healthy Homes Conference. There were 100 people trained at the New Grantee Orientation and 350 people trained at the Program Managers School.

HOPE VI/Choice Neighborhoods Results of Investments in Human Capital: Since the inception of the HOPE VI program in FY 1993, the program has made significant investments in Human Capital related initiatives (i.e., education and training). The following table and continuation on the next page presents HOPE VI's key performance information for fiscal years 2014 through 2018, reported as cumulative since the program's inception.

Key Results of HOPE VI Program Activities
Fiscal Years 2014 – 2018

HOPE VI Service	2014 Enrolled	2014 Completed	Percent Completed	2015 Enrolled	2015 Completed	Percent Completed
Employment Preparation, Placement & Retention[63]	85,997	N/A	N/A	87,005	N/A	N/A
Job Skills Training Programs	35,001	18,536	53%	35,364	18,685	53%
High School Equivalent Education	18,389	5,315	29%	18,533	5,334	29%
Entrepreneurship Training	3,746	1,649	44%	3,755	1,654	44%
Homeownership Counseling	16,650	7,160	43%	16,837	7,350	44%
HOPE VI Service	**2016 Enrolled**	**2016 Completed**	**% Completed**	**2017 Enrolled**	**2017 Completed**	**% Completed**
Employment Preparation, Placement & Retention[64]	87,564	N/A	N/A	87,861	N/A	N/A
Job Skills Training Programs	35,675	18,877	53%	35,748	18,917	53%
High School Equivalent Education	18,705	5,381	29%	18,792	5,390	29%
Entrepreneurship Training	3,795	1,682	44%	3,803	1,684	44%
Homeownership Counseling	17,399	7,804	45%	17,410	7,805	45%

[63] Completion data for this service is not provided, as all who enroll are considered recipients of the training.
[64] Ibid.

Key Results of HOPE VI Program Activities
Fiscal Years 2014 – 2018 (Continued)

HOPE VI Service	2018 Enrolled	2018 Completed	Percent Completed
Employment Preparation, Placement & Retention[65]	87,873	N/A	N/A
Job Skills Training Programs	35,749	18,920	53%
High School Equivalent Education	18,795	5,393	29%
Entrepreneurship Training	3,803	1,684	44%
Homeownership Counseling	17,413	7,805	45%

The following table presents Choice Neighborhoods cumulative performance information for fiscal years 2014 through 2018.

Key Results of Choice Neighborhoods Program Activities
Fiscal Years 2014 – 2018

Choice Neighborhoods Service	2014[66]	2015	2016	2017	2018[67]
Current Total Original Assisted Residents	5,813	7,017	10,089	13,446	10,132
Current Total Original Assisted Residents in Case Management	2,900	3,063	4,882	7,596	6,750
High School Graduation Rate[68]	N/A	N/A	N/A	N/A	N/A
Number of Residents (in Case Management) Who Completed Job Training or Other Workforce Development Programs	411	867	343	119	90

[65] 2014 was the first year of reporting results for Choice Neighborhoods Human Capital Investments.
[66] Ibid.
[67] The reduction in FY 2018 is due to CN's first five grantees completing their grant term as well as to the end of their reporting metrics.
[68] Program level High School Graduation Rate data is currently not available for 2014 through 2018, due to metric only requiring individual grantees to enter rates and not numerator and denominator.

Research and Development

Investments in Research and Development: Research and development investments support (a) the search for new knowledge and/or (b) the refinement and application of knowledge or ideas, pertaining to development of new or improved products or processes. Research and development investments are intended to increase economic productive capacity or yield other future benefits. As such, these investments support HUD's strategic goals, which are to increase the availability of decent, safe, and affordable housing in America's communities; and ensure public trust in HUD.

The following table summarizes HUD's research and development investments, for fiscal years 2014 through 2018.

Investments in Research and Development
Fiscal Year 2014 – 2018
(In Millions)

Program	2014	2015	2016	2017	2018
OLHCHH					
Lead Hazard Control[69]	$3	$4	$5	$6	$3
TOTAL	**$3**	**$4**	**$5**	**$6**	**$3**

Results of Investments in Research and Development: In support of HUD's lead hazard control initiatives, the OLHCHH program has conducted various studies. Such studies have contributed to an overall reduction in the per-housing unit cost of lead hazard evaluation and control efforts over the last decade. More recently, as indicated in the following table, increased supply and labor costs have contributed to increases in the per-housing unit cost through FY 2016. The per-housing unit cost varies by geographic location and the grantees' level of participation in control activities. These studies have also led to the identification of the prevalence of related hazards.

Results of Research and Development Investments
Fiscal Year 2014 – 2018
(In Dollars)

Program	2014	2015	2016	2017	2018
OLHCHH					
Lead Hazard Control Per-Housing Unit Cost	$7,755	$8,909	$9,048	$8,437	$8,046
TOTAL	**$7,755**	**$8,909**	**$9,048**	**$8,437**	**$8,046**

[69] In FY 2013, there was a significant increase in Healthy Homes Technical Studies (HHTS) grant awards, and those grants are being closed out. In FY 2017, the FY 2013 grantee transactions made up 80% of the HHTS transactions. In FY 2018, that number dropped to 45%.

Required Supplementary Information (RSI)

Combining Statement of Budgetary Resources
As of September 30, 2018
(In Millions)
Page 1 of 2

	FHA	Ginnie Mae	Section 8 Rental Assistance	PIH	Homeless Assistance Grants	Housing for the Elderly and Disabled	CDBG
Budgetary Resources:							
Unobligated Balance From Prior Year Budget Authority, Net	$31,750	$14,154	$907	$201	$3,015	$236	$9,906
Appropriations (discretionary and mandatory)	2,078	-	33,720	3,460	2,513	908	31,345
Borrowing Authority (discretionary and mandatory)	-	-	-	-	-	-	-
Spending Authority from Offsetting Collections	8,157	2,837	-	-	1	256	-
Total Budgetary Resources	**$41,985**	**$16,991**	**$34,627**	**$3,661**	**$5,529**	**$1,400**	**$41,251**
Memorandom (non-add) Entries:							
Status of Budgetary Resources:							
Unobligated Balance, End of Year:							
Apportioned, Unexpired Accounts	$57	$180	$1,084	$103	$2,481	$172	$29,213
Unapportioned, Unexpired Accounts	27,141	16,437	163	104	6	434	28
Unexpired Unobligated Balance, End of Year	$27,198	$16,617	$1,247	$207	$2,487	$606	$29,241
Expired Unobligated Balance, End of Year	34	1	-	11	554	12	2
Unobligated Balance, End of Year (Total)	$27,232	$16,618	$1,247	$218	$3,041	$618	$29,243
Total Budgetary Resources	**$41,985**	**$16,991**	**$34,627**	**$3,661**	**$5,529**	**$1,400**	**$41,251**
Outlays, Net:							
Outlays, Net (Total) (discretionary and mandatory)	$6,499	$(2,715)	$33,273	$2,532	$2,054	$669	$5,890
Distributed Offsetting Receipts (-)	(1,183)	-	(1)	-	-	-	-
Agency Outlays, Net (discretionary and mandatory)	**$5,316**	**$(2,715)**	**$33,272**	**$2,532**	**$2,054**	**$669**	**$5,890**

The accompanying notes are an integral part of these statements.

Combining Statement of Budgetary Resources
As of September 30, 2018
(In Millions)
Page 2 of 2

	HOME	All Other	Budgetary Total	FHA Non-Budgetary	Ginnie Mae Non-Budgetary	Other Non-Budgetary Credit Reform Accounts	Total Non-Budgetary Credit Reform Accounts	Total
Budgetary Resources:								
Unobligated Balance From Prior Year Budget Authority, Net	$646	$2,805	$63,620	$25,254	$4,086	$410	$29,750	$93,370
Appropriations (discretionary and mandatory)	1,362	7,571	82,957	-	-	-	-	82,957
Borrowing Authority (discretionary and mandatory)	-	-	-	8,204	-	6	8,210	8,210
Spending Authority from Offsetting Collections	-	88	11,339	23,677	2,007	66	25,750	37,089
Total Budgetary Resources	**$2,008**	**$10,464**	**$157,916**	**$57,135**	**$6,093**	**$482**	**$63,710**	**$221,626**
Memorandum (non-add) Entries:								
Net Adjustments to unobligated balance brought forward, Oct 1	$2	$91	$(3,711)	$462	$3,439	$(31)	$3,870	$159
Status of Budgetary Resources:								
New Obligations and Upward Adjustments (Total) (Note 21)	$1,486	$7,850	$76,563	$27,357	$2,928	$112	$30,397	$106,960
Unobligated Balance, End of Year:								
Apportioned, Unexpired Accounts	495	1,512	35,297	10,485	2,670	79	13,234	48,531
Unapportioned, Unexpired Accounts	2	991	45,306	19,293	495	291	20,079	65,385
Unexpired Unobligated Balance, End of Year	$497	$2,503	$80,603	$29,778	$3,165	$370	$33,313	$113,916
Expired Unobligated Balance, End of Year	25	111	750	-	-	-	-	750
Unobligated Balance, End of Year (Total)	522	2,614	81,353	29,778	3,165	370	33,313	114,666
Total Budgetary Resources	**$2,008**	**$10,464**	**$157,916**	**$57,135**	**$6,093**	**$482**	**$63,710**	**$221,626**
Outlays, Net:								
Outlays, Net (Total) (discretionary and mandatory)	$944	$7,067	$56,213	$(7,665)	$706	$41	$(6,918)	$49,295
Distributed Offsetting Receipts (-)	-	(364)	(1,548)	-	-	-	-	(1,548)
Agency Outlays, Net (discretionary and mandatory)	**$944**	**$6,703**	**$54,665**	**$(7,665)**	**$706**	**$41**	**$(6,918)**	**$47,747**

The accompanying notes are an integral part of these statements.

U.S. DEPARTMENT OF

HOUSING AND URBAN DEVELOPMENT
OFFICE OF INSPECTOR GENERAL

Independent Auditor's Report[1]

To the Secretary,
U.S. Department of Housing and Urban Development:

In our engagement to audit the fiscal years 2018 and 2017 (restated) consolidated financial statements of the U.S. Department of Housing and Urban Development (HUD), we found

- That we were not able to obtain sufficient, appropriate audit evidence to provide an audit opinion on HUD's principal financial statements and accompanying notes as of September 30, 2018 and 2017 (restated), and its net costs, changes in net position, and budgetary resources for the fiscal year then ended. Accordingly, we do not express an opinion on the financial statements.
- Five material weaknesses and four significant deficiencies in internal control over financial reporting based on the limited procedures we performed.
- Five reportable noncompliances with provisions of applicable laws, regulations, contracts, and grant agreements we tested.

The following sections discuss in more detail (1) our report on the financial statements, which includes an emphasis-of-matter paragraph related to HUD's restatement of fiscal year 2017

[1] This report is supplemented by three separate reports issued by HUD's Office of Inspector General (OIG) to provide a more detailed discussion of the internal control and compliance issues and to provide specific recommendations to HUD management. The findings have been included in the Internal Control and Compliance With Laws and Regulations sections of the independent auditor's report. The supplemental reports are available on the HUD OIG internet site at https://www.hudoig.gov and are entitled (1) Additional Details To Supplement Our Fiscal Years 2018 and 2017 (Restated) U.S. Department of Housing and Urban Development Financial Statement Audit (audit report 2019-FO-0003, issued November 15, 2018); (2) Audit of the Federal Housing Administration Financial Statements for Fiscal Years 2018 and 2017 (Restated) (audit report 2019-FO-0002, issued November 14, 2018); and (3) Audit of the Government National Mortgage Association's Financial Statements for Fiscal Years 2018 and 2017 (Restated) (audit report 2019-FO-0001, issued November 13, 2018).

balances, required supplementary information (RSI),[2] and other information included with the financial statements;[3] (2) our report on internal control over financial reporting; (3) our report on compliance with laws, regulations, contracts, and grant agreements; and (4) agency comments and our evaluation.

Report on the Financial Statements

The Chief Financial Officers Act of 1990 requires HUD to prepare the accompanying consolidated balance sheets as of September 30, 2018 and 2017 (restated); the related consolidated statements of net cost, changes in net position, and combined statement of budgetary resources for the fiscal years then ended; and the related notes to the financial statements. We were engaged to audit those financial statements in accordance with generally accepted government auditing standards accepted in the United States of America and according to OMB Bulletin 19-01.

Management's Responsibility for the Financial Statements

HUD management is responsible for (1) the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; (2) preparing, measuring, and presenting the RSI in accordance with U.S. generally accepted accounting principles (GAAP); (3) preparing and presenting other information included in documents containing the audited financial statements and auditor's report and ensuring the consistency of that information with the audited financial statements and the RSI; and (4) maintaining effective internal control over financial reporting, which includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

We are required by the Chief Financial Officers Act of 1990, as amended by the Government Management Reform Act of 1994 and implemented by OMB Bulletin 19-01, Audit Requirements for Federal Financial Statements, to audit HUD's principal financial statements or select an independent auditor to do so.

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[2] In its fiscal year 2018 agency financial report, HUD presents "required supplemental stewardship information" and "required supplementary information," which are included with the financial statements. The required supplemental stewardship information presents information on investments in non-Federal physical property and human capital and investments in research and development. In the required supplementary information, HUD presents a "management discussion and analysis of operations" and combining statements of budgetary resources. HUD also chose to present consolidating balance sheets and related consolidating statements of changes in net position as required supplementary information. The consolidating information is presented for additional analysis of the financial statements rather than to present the financial position and changes in net position of HUD's major activities. This information is not a required part of the basic financial statements but is supplementary information required by Federal Accounting Standards Advisory Board (FASAB) and OMB Circular A-136.

[3] Other information consists of information included with the financial statements, other than the RSI and the auditor's report.

Our responsibility is to express an opinion on the fair presentation of these principal financial statements in all material respects in conformity with accounting principles generally accepted in the United States of America based on our audits. Because of the matters described in the Basis for Disclaimer of Opinion section, we were not able to obtain sufficient, appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

During our fiscal year 2018 audit, we identified several matters for which we were unable to obtain adequate audit evidence to provide a basis of opinion on the fiscal years 2018 and 2017 (restated) financial statements. When evaluating these areas and their impacts on the financial statements as a whole, we determined that multiple material financial statement line items were impacted and the issues identified were pervasive and material to the fiscal years 2018 and 2017 consolidated financial statements. There were no other satisfactory audit procedures that we could adopt to obtain sufficient, appropriate evidence with respect to these unresolved matters. Readers are cautioned that amounts reported in the financial statements and related notes may not be reliable.

The matters that we identified related to (1) a disclaimer of opinion on the Government National Mortgage Associations' (Ginnie Mae) financial statements and (2) improper and unreliable accounting for assets and budgetary resources. Additional details are discussed below.

> *Disclaimer of opinion on Ginnie Mae financial statements.* For the fifth consecutive year, Ginnie Mae could not bring its material asset balances related to its nonpooled loan assets (NPA) into an auditable state in fiscal year 2018. Therefore, we were unable to obtain sufficient, appropriate evidence to express an opinion on the fairness of the $3 billion (net of allowance) in NPA[4] from Ginnie Mae's defaulted issuers' portfolio, which were consolidated into HUD's fiscal years 2018 and 2017 financial statements.
>
> This condition occurred because the subledger database project, which was the solution developed by Ginnie Mae management in response to our finding was not yet in place and fully implemented at the end of fiscal year 2018. Therefore, we were again unable to perform all of the audit procedures needed to obtain sufficient, appropriate evidence to render an opinion on the NPA. As a result, we determined our audit scope insufficient to express an opinion on Ginnie Mae's NPA and related accounts as of September 30, 2018. This determination impacted the following areas reported on HUD's consolidated financial statements: (1) noncredit reform loans totaling $2.6 billion, net of allowance, for the loan losses due to payment of probable claims by the Federal Housing Administration (FHA); (2) $385.1 million in elimination from FHA's loan guarantee liability also reflected in note 7; (3) $53.4 million in accounts receivables, and (4) note 8 to HUD's consolidated financial statements.

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[4] These assets relate to (1) claims receivable, net ($253 million); (2) mortgage loans held for investment, including accrued interest, net ($2,736 million); and (3) acquired property, net ($25 million).

Additionally, Ginnie Mae continued to account for FHA reimbursable costs as an expense instead of capitalizing the costs as an asset in fiscal year 2018. This practice caused Ginnie Mae's asset and net income line items to be misstated. Due to multiple years of incorrect accounting, we believe the cumulative effect of the errors identified was material. However, we were unable to determine with sufficient accuracy a proposed adjustment to correct the errors due to insufficient available data.

Improper and unreliable accounting for assets and budgetary resources. HUD did not properly account for several types of assets and budgetary resources reported on its balance sheet and statement of budgetary resources, causing misstatements or unreliable balances. Specifically, budgetary accounting for Office of Community Planning and Development (CPD) formula and disaster programs was not performed in accordance with Federal GAAP. Balances reported for property, plant, and equipment could not be relied upon during fiscal year 2017, causing HUD to represent that this balance was not available to audit during fiscal year 2018 as OCFO implemented corrective actions. There were no other compensating audit procedures that could be performed to obtain reasonable assurance regarding these balances.

- Improper budgetary accounting for CPD formula programs. HUD used a first-in first-out (FIFO) method[5] to disburse and commit CPD formula program funds, which was not in accordance with GAAP. As a result, we determined that financial transactions related to CPD's formula-based programs that entered HUD's accounting system had been processed incorrectly. We considered the effects of this methodology and the system limitations of HUD's grant management and mixed accounting system to properly account for these grant transactions in accordance with GAAP pervasive because of the dollar amounts at risk and the volume of CPD grant activities. As of September 30, 2018, approximately $859.6 million in disbursements and $1.1 billion in undisbursed obligations related to the HOME Investment Partnerships, Community Development Block Grant, Housing for Persons With AIDS, and Emergency Solutions Grant programs were impacted. Based on the pervasiveness of their effects, in our opinion, the unobligated balance from prior year budget authority and unobligated balance, end of year, reported in HUD's combined statement of budgetary resources for fiscal year 2014 and prior years, were materially misstated. The amount of material misstatements for these CPD programs in the accompanying combined statement of budgetary resources could not be readily determined to reliably support the budgetary balances reported by HUD at yearend due to the inadequacy of evidence available from HUD's mixed accounting and grants management system.

[5] The FASAB Handbook defines FIFO as a cost flow assumption. The first goods purchased or produced are assumed to be the first goods sold (FASAB Handbook, Version 13, appendix E, page 30, dated June 2014). In addition, the Financial Audit Manual states that the use of "first-in, first-out" or other arbitrary means to liquidate obligations based on outlays is not generally acceptable (GAO-PCIE (U.S. Government Accountability Office-President's Council on Integrity and Efficiency) Financial Audit Manual, Internal Control Phase, Budget Control Objectives, page 395, F-3). In the context of HUD's use of this method, the first funds appropriated and allocated to the grantee are the first funds committed and disbursed, regardless of the source year in which grant funds were committed for the activity.

- Improper budgetary accounting for disaster relief appropriations, 2013. The Disaster Relief Appropriations Act, 2013, contained a 24-month expenditure requirement for grantees. HUD improperly allowed grantees receiving funds from this Act to revise transactions in CPD's Disaster Recovery Grant Reporting (DRGR) system to avoid losing unexpended funds after the 24-month period passed. This occurred because of systemic weaknesses in DRGR and CPD's incorrectly allowing grantees to account for Community Development Block Grant Disaster Recovery funds in a cumulative manner and to make transfers between rounds that had overlapping obligation periods, regardless of the date on which the grantee incurred the costs. These weaknesses caused HUD to (1) disburse funds that would have otherwise been unavailable and (2) inaccurately present the status of its unobligated balances and related line items on the Statement of Budgetary Resources. We could not determine the total misstatement caused by this deficiency as of September 30, 2018, due to the cumulative treatment of the obligations and numerous revisions to the expenditures; however, we identified at least $497 million in expenses that had been improperly recorded or revised in DRGR as of January 2018. As of September 30, 2018, there was $5.2 billion remaining in 2013 Disaster Recovery funding that was susceptible to this practice. Therefore, due to the material nature of the funds remaining that were at risk of being improperly accounted for, we believe that HUD's financial statements were materially misstated.

- Unreliable accounting for HUD's property, plant, and equipment. HUD's accounting for its property, plant, and equipment did not comply with Federal GAAP. Specifically, HUD could not support balances related to internal use software totaling $335.4 million and in June 2018, represented that this balance was out of scope for the fiscal year 2018 audit. Therefore, we were unable to obtain sufficient, appropriate evidence to express an opinion on the fairness of the $335.4 million property, plant, and equipment balance. These conditions occurred because HUD (1) did not have a reliable and integrated asset management system, (2) lacked controls to ensure communication of information regarding acquisitions among stakeholders, and (3) lacked oversight from the Office of the Chief Financial Officer (OCFO) to detect and correct deficiencies. During fiscal year 2018, HUD was working toward implementing a reliable asset management system; new policies and procedures to properly account for property, plant, and equipment; internal use software, and leasehold improvements. As a result, we determined that our audit scope was insufficient to express an opinion on HUD's property, plant, and equipment, related accounts and note disclosures as of September 30, 2018.

Disclaimer of Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion section above, we were not able to obtain sufficient, appropriate audit evidence to provide an audit opinion on HUD's principal financial statements and accompanying notes as of September 30, 2018 and

2017 (restated), and its net costs, changes in net position, and budgetary resources for the fiscal year then ended. Accordingly, we do not express an opinion on the financial statements.

Emphasis of Matter

The following are matters that we would like to draw users' attention to that are presented or disclosed in the financial statements, which we believe are of such importance that it is fundamental to users' understanding of these financial statements.

Restatement of Fiscal Year 2017 Financial Statements

As discussed in note 24 to the financial statements, the fiscal year 2017 financial statements have been restated for corrections due to (1) multiple errors found in FHA financial statement and note disclosures that were significant to the consolidated financial statements; (2) errors in HUD's note 7 related to subsidy expense and outstanding principal guaranteed for Section 108 and Native Hawaiian Housing loan guarantees, Note 3, Fund Balance with Treasury, related to a crosswalking error, and note 5 due to a classification error; (3) errors in HUD's cost allocation; and (4) removal of contingent liability and recognition of imputed costs for a lawsuit paid through the U.S. Department of the Treasury's judgement fund.

FHA performed multiple restatements related to the (1) FHA Homeowners Equity Conversion Mortgage (HECM) cash flow model and (2) schedule for reconciling loan guarantee liability balance. First, FHA corrected material misstatements to recognize the effects of a discounting error in the HECM Return on Assets cash flow model used to calculate the recovery rate applied to the annual financial statement reestimate. These corrections impacted multiple financial statement line items on HUD's Consolidated Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, and related noted disclosures. Next, a restatement was made due to a presentation error in FHA's stand-alone financial statement note disclosure, note 7, which was carried over into HUD's consolidated financial statements note disclosure, note 7.

There were additional errors in note 7 that were identified and corrected by HUD due to its subledger to general ledger cleanup initiative. HUD's analysis determined that it needed to apply a net decrease of $179 million to the outstanding principal guaranteed balance in Note 7 for fiscal year 2017. The impacted programs were Section 108 Loan Guarantee and Section 184A Native Hawaiian Housing Loan Guarantee. We identified additional errors in note 3 during fiscal year 2017 due to a crosswalking error, which HUD corrected. HUD identified another classification error in note 5, which was also corrected.

As part of our fiscal year 2018 audit of HUD's cost allocation methodology, we identified a material error, which resulted in misstatements in the 2017 Statement of Net Cost and other related line items and note disclosures by $188 million. HUD corrected the allocation to address this issue.

Lastly, based on our review of HUD's legal representation letters, we identified an error related to HUD's reporting of contingent liabilities on its fiscal year 2017 balance sheet. HUD corrected the misstatement by removing the contingent liability and recording the imputed cost of $136 million.

Accordingly, our opinion on the audited financial statements for 2017 is withdrawn because it can no longer be relied upon and is replaced by the auditor's report on the restated financial statements. Our opinion was not modified with respect to this matter Additional details regarding these restatements can be found in note 24 of HUD's consolidated financial statements.

There were other potential material misstatements in the fiscal year 2017 and 2018 financial statements in which no adjustments had been made. HUD described in note 24 the data limitations and misapplication of accounting principles related to loan impairment of Ginnie Mae's nonpooled loan portfolio balances, which prevented Ginnie Mae and HUD from reporting their NPA balances in compliance with U.S. GAAP. Other potential misstatements not disclosed in note 24 relate to (1) the use of the FIFO method to liquidate obligations under CPD's formula grant programs; (2) the effects of revisions to expenses and cumulative accounting of funds from the Disaster Relief Appropriations Act, 2013; (3) property, plant, and equipment; and (4) Ginnie Mae's inappropriate accounting for FHA reimbursable costs. No adjustments had been made because the specific amounts of misstatements and their related effects were unknown. Additional details can be found in our Report on Internal Controls Over Financial Reporting.

FHA Loan Guarantee Liability

The loan guarantee liability is an estimate of the net present value of future claims, net of future premiums, and future recoveries from loans insured as of the end of the fiscal year. This estimate is developed using econometric models that integrate historical loan-level program and economic data with regional house price appreciation forecasts to develop assumptions about future portfolio performance. In fiscal year 2018, FHA changed its discounting period to allocate the reestimate expense from middle-of-year discount period assumption to the beginning-of-year discount period assumption. The loan guarantee liability is discussed further in note 7 to the financial statements. Our opinion was not modified with respect to this matter.

Other Matters

The following are other matters that are relevant to the users' understanding of the audit we conducted of HUD's consolidated financial statements, our responsibilities as the auditor, and our audit report included here.

Required Supplementary Information

U.S. GAAP requires that certain information be presented to supplement the basic general-purpose financial statements. Such information, although not a part of the basic general-purpose financial statements, is required by Federal Accounting Standards

Advisory Board (FASAB), which considers it to be an essential part of financial reporting for placing the basic general-purpose financial statements into an appropriate operational, economic, or historical context. We did not audit and do not express an opinion or provide any assurance on this information. However, we applied certain limited procedures in accordance with auditing standards generally accepted in the United States of America, which consisted principally of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to the auditor's inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements, in order to report omissions or material departures from FASAB guidelines, if any, identified by these limited procedures. These limited procedures do not provide sufficient evidence to express an opinion or provide assurance on the information.

Other Information

HUD's agency financial report contains other information that is not a required part of the basic financial statements. It includes a wide range of information, some of which is not directly related to the financial statements. This information is presented for purposes of additional analysis and is not a required part of the financial statements or the RSI. We read the other information included with the financial statements to identify material inconsistencies, if any, with the audited financial statements. Our audit was conducted for the purpose of forming an opinion on HUD's basic financial statements as a whole. Such information has not been subjected to the auditing procedures applied in the audit of the principal financial statements, and, accordingly, we do not express an opinion or provide assurance on the other information.

Report on Internal Controls Over Financial Reporting

Management's Responsibility

HUD management is responsible for maintaining effective internal control over financial reporting, including the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

In planning and performing our audit of HUD's consolidated financial statements as of and for the years ending September 30, 2018 and 2017, in accordance with U.S. generally accepted government auditing standards, we considered HUD's internal control over financial reporting as a basis for designing audit procedures that were appropriate in the circumstances for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of HUD's internal control over financial reporting. Accordingly, we do not express an opinion on HUD's internal control over financial reporting. We are required to report all deficiencies that are considered to be significant deficiencies[6] or material weaknesses.[7] We did not consider all internal controls relevant to operating objectives, such as those controls relevant to preparing performance information and ensuring efficient operations.

Definition and Inherent Limitations of Internal Control Over Financial Reporting
An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, the objectives of which are to provide reasonable assurance that (1) transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with U.S. GAAP; (2) assets are safeguarded against loss from unauthorized acquisition, use, or disposition; and (3) transactions are executed in accordance with provisions of applicable laws, including those governing the use of budget authority, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect and correct misstatements due to fraud or error.

Results of Our Consideration of Internal Control Over Financial Reporting
Additional details on our findings regarding HUD's, FHA's, and Ginnie Mae's internal controls over financial reporting are summarized below and were provided in separate audit reports to HUD management.[8] These additional details also augment the discussions of instances in which HUD had not complied with applicable laws and regulations; the information regarding our audit objectives, scope, and methodology; and recommendations to HUD management resulting from our audit.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A significant deficiency is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance. A material weakness is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

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6 A significant deficiency is a deficiency or a combination of deficiencies in internal control over financial reporting that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

7 A material weakness is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

8 Audit Report 2019-FO-0003, Additional Details To Supplement Our Fiscal Years 2018 and 2017 (Restated) U.S. Department of Housing and Urban Development Financial Statements, issued November 15, 2018; Audit Report 2019-FO-0002, Audit of the Federal Housing Administration's Financial Statements for Fiscal Years 2018 and 2017 (Restated), issued November 14, 2018; Audit Report 2019-FO-0001, Audit of the Government National Mortgage Association's Fiscal Years 2018 and 2017 (Restated) Financial Statements, issued November 13, 2018

Our consideration of internal control was for the limited purpose described above and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. However, we noted in our reports the following five material weaknesses and four significant deficiencies.

Material Weaknesses

1. HUD-wide weaknesses in internal controls over financial reporting. Our audits of the FHA financial statements, Ginnie Mae financial statements, and the HUD consolidated financial statements identified weaknesses in internal controls over financial reporting. While some of the weaknesses identified were specific to FHA, Ginnie Mae, and HUD component financial reporting processes, the impact of the weaknesses identified at the component entities also impacted the effectiveness and accuracy of HUD's financial reporting process when consolidating component-entity financial information to prepare HUD's consolidated financial statements and accompanying notes.

    - HUD financial reporting. In fiscal year 2018, HUD made significant improvements to its controls over financial reporting; however, there were still shortcomings in its internal control system. Specifically, HUD's internal control system did not have effective controls to reasonably ensure that it gathered and accurately included all necessary information from its component entities, program offices, and the Office of Legal Counsel in its consolidated financial statements. Further, neither Ginnie Mae nor HUD had adequate controls in place to ensure that Ginnie Mae's accounting system produced accurate budgetary balances. Due to ineffective controls, HUD's fiscal year 2018 financial statements provided for audit contained material errors that were not detected and fiscal year 2017 financial statements and notes required restatement. Additionally, HUD's third quarter fiscal year 2018 financial statements and note disclosures were misstated and missing required information. As a result, stakeholders did not have accurate and complete information required by Federal GAAP and OMB regulations. Further, the control weaknesses that led to these misstatements increased the risk of errors and may cause other misstatements in HUD's yearend financial statements that are not detected and corrected within the yearend reporting timeframes.

    - Ginnie Mae financial reporting. Ginnie Mae made progress in certain areas of internal control over financial reporting in fiscal year 2018; however, the majority of the weaknesses identified in prior-year audits continued. These weaknesses included (1) improper accounting for FHA's reimbursable costs and accrued interest earned on nonpooled loans and (2) accounting issues related to revenue recognition, fixed assets, advances, and note disclosures. We are reporting these continued weaknesses because Ginnie Mae has not remediated a number of our concerns and due to continued disagreement with Ginnie Mae regarding its accounting practice for advances. Until these control deficiencies are fully remediated, Ginnie Mae lacks assurance that its internal controls can be relied on to prevent or detect the risk of material misstatements in its financial statements in a timely manner.

- FHA financial reporting. In fiscal year 2018, some of the control deficiencies in financial reporting identified in 2017 continued, and new control deficiencies were identified. Specifically, these new control deficiencies included issues related to the lack of subsidiary ledger systems or inadequate designs within subsidiary ledger systems and incorrect assumptions and inadequate controls used for financial statement reporting. These conditions occurred because FHA did not have effective monitoring and processes in place to ensure (1) that subsidiary ledger systems were implemented and accurately designed to record accounting events and (2) the accuracy of data reported in the financial statements. As a result, $588 million in expenses was incorrectly reported in the financial statement note disclosures, and $461.5 million was restated in fiscal year 2017 financial statement notes. Additionally, FHA may have missed an opportunity to put $399 million of its unobligated funds to better use because invalid obligations were not always deobligated on time.

2. HUD accounting did not always comply with GAAP. HUD did not properly account for or have adequate support for all of its assets, liabilities, and budgetary resources. Specifically, HUD did not (1) use an appropriate method to commit and disburse fiscal year 2014 and prior obligations for CPD's formula grant programs; (2) account for the obligation and disbursement of funds from the Disaster Relief Appropriations Act, 2013, in accordance with GAAP; (3) properly account for its property, plant, and equipment; (4) adequately validate its accrued grant liabilities estimates; (5) accurately recognize receivables from sustained audit findings; (6) recognize prepayments for funds advanced to its Indian Housing Block Grant (IHBG) grantees for investments; (7) use complete and accurate data to estimate HUD's PIH (Office of Public and Indian Housing) prepayment; or (8) recognize all financial events resulting from PIH's cash management process. These deficiencies occurred because of (1) continued weaknesses in HUD's internal controls, (2) a lack of communication between OCFO and the program offices, and (3) insufficient information systems. As a result, several financial statement line items were misstated, were at risk of misstatement, or could not be audited as of September 30, 2018.

3. Material asset balances related to nonpooled loans were not auditable, and related allowance for loan loss account balances remained unreliable. For the fifth consecutive year, Ginnie Mae could not bring its material asset balances related to its NPA and related accounts into an auditable state in fiscal year 2018. Further, Ginnie Mae's loan loss account balances remained unreliable because various underlying accounting issues had not been remediated at the end of fiscal year 2018. Therefore, we were unable to audit the $3 billion (net of allowance) in NPA reported in Ginnie Mae's financial statements as of September 30, 2018. These assets relate to (1) claims receivable, net ($253 million); (2) mortgage loans held for investment, including accrued interest, net ($2,736 million); and (3) acquired property, net ($25 million). The first condition occurred because, although efforts are underway to develop financial management systems capable of handling loan-level transaction accounting, to include the subledger database project solution (SLDB), these systems were not yet fully in place at the end of fiscal year 2018. Similarly, the second condition of reliability concerns with the allowance for loan loss account balances

occurred because the SLDB was not fully implemented in fiscal year 2018. Further, the critical accounting policies and procedures, which dictate how the NPA and related accounts will be recorded in the financial statements, were not finalized until the end of fiscal year 2018. Therefore, we were again unable to perform all of the audit procedures needed to obtain sufficient, appropriate evidence to formulate a conclusion on the fairness of the financial statements. As a result, we deemed our audit scope insufficient to express an opinion on (1) Ginnie Mae's $3 billion in NPA and related accounts and (2) the balances of the allowance for loan loss account reported in Ginnie Mae's financial statements, which remained unreliable as of September 30, 2018.

4. HUD's financial management system weaknesses continued. HUD's financial management system weaknesses remained a material weakness in fiscal year 2018 due to the continued impact of a number of financial reporting deficiencies and limitations. While HUD took steps to address financial management system weaknesses during fiscal year 2018, significant challenges remained. Many of the material weaknesses discussed in this audit report share the same underlying cause, shortcomings in HUD's financial management systems. Specifically, we noted (1) issues remaining from the transition of key financial management functions to a Federal shared service provider, (2) existing financial management systems that lacked key functionality, and (3) that HUD did not have financial systems in place to meet financial management needs. HUD's efforts to modernize its financial management systems have been hindered by weaknesses in implementing key information technology (IT) management practices. HUD's inability to modernize its legacy financial systems has resulted in a continued reliance on legacy financial systems with various limitations. Program offices have compensated for system limitations by using less reliable manual processes to meet financial management needs. These system issues and limitations inhibited HUD's ability to produce reliable, useful, and timely financial information and have contributed to a number of financial reporting errors and HUD's inability to obtain an unqualified opinion on its consolidated financial statements.

5. Weaknesses continued in FHA's modeling processes. FHA had addressed some previousyear modeling weaknesses, but improvements are still needed. While FHA had corrected the specific modeling errors cited in our fiscal year 2017 audit report, new modeling errors were identified during our fiscal year 2018 audit. For example, in fiscal year 2018, FHA discovered that cash flows were improperly discounted in the fiscal year 2017 HECM return on assets (ROA) model. Errors were also identified in the HECM and multifamily liabilities for loan guarantees (LLG) cash flow models. In addition, FHA continued to face challenges with its model governance and model practices and failed to test or consider the impact of assumptions used in its HECM models. These conditions were due to ineffective oversight and FHA's failure to follow its established guidelines. As a result of improperly discounting cash flows in the HECM ROA model, the loans receivable and related foreclosed-on property line item was understated by $1.7 billion on the fiscal year 2017 financial statements. Further, there were additional errors totaling $19.1 million in the fiscal year 2018 models, and FHA remained susceptible to modeling

errors due to its model governance and practices and its failure to test or consider the impact of assumptions.

Significant Deficiencies

1. HUD and Ginnie Mae financial management governance had progressed, but weaknesses remained. During fiscal year 2018, HUD and Ginnie Mae experienced progress with financial management governance; however, several areas remained unaddressed. As of September 30, 2018, (1) HUD's financial management leadership structure had been strengthened by key positions being filled; however, key personnel roles remained vacant in OCFO; (2) OCFO continued to experience problems with information and communication necessary to allow for accurate financial reporting; (3) development of policies and procedures for significant business practices had progressed, but HUD continued to lack mature financial management governance practices; (4) HUD did not have reliable financial information for reporting; and (5) weaknesses in HUD's financial management systems continued. Weaknesses in program and component internal controls, which impacted financial reporting, were able to develop in part due to a lack of established financial management governance processes. These unaddressed financial management weaknesses have contributed significantly to the (1) material weaknesses and significant deficiencies in internal controls over financial reporting, (2) instances of noncompliance with laws and regulations, and (3) consecutive years of restating prior-year financial statement balances to correct errors. While financial management leadership had begun setting the preliminary direction and priorities to ensure proper oversight and implementation of robust financial management practices, HUD continued to experience challenges with resolving these deficiencies. HUD's inability to resolve the deficiencies contributed to restatements of fiscal year 2017 financial statements and errors and missing required information in fiscal year 2018 quarterly financial statements.

   Concerns with Ginnie Mae's financial management governance were specifically related to (1) keeping Ginnie Mae's OCFO operations fully functional; (2) ensuring that emerging risks affecting its financial management operations were identified, analyzed, and responded to appropriately and in a timely manner; (3) establishing adequate and appropriate accounting policies and procedures and accounting systems; (4) lacking effective monitoring and oversight of master subservicers as service organizations; and (5) implementing an effective entitywide governance of the estimation models, which are used to generate accounting estimates for financial reporting. The lack of proper alignment in its people, process, and technology at the right time, right place, and right seats contributed to our ongoing concern, as well as Ginnie Mae's inability to produce auditable financial statements for the fifth consecutive fiscal year.

2. HUD continued to report significant amounts of invalid obligations. Deficiencies in HUD's process for monitoring its unliquidated obligations and deobligating balances tied to invalid obligations continued to exist. We identified $65.8 million in obligations, which HUD determined needed to be closed out and deobligated during the fiscal year that remained unprocessed as of September 30, 2018. We also identified $47.6 million in

obligations that were inactive,[9] potentially indicating additional invalid obligations. We attributed these deficiencies to ineffective monitoring efforts and the inability to promptly process contract closeouts. Lastly, we noted that as of September 30, 2018, HUD had not implemented prior-year recommendations to deobligate $576.4 million in funds. We attribute the root cause of these conditions to weaknesses with HUD's open obligation review and weaknesses with program office monitoring of obligations. As a result, HUD's unobligated balance from prior-year budget authority and related line items on the statement of budgetary resources were understated by at least $65.8 million and potentially understated by up to $689.8 million.

3. FHA's controls related to partial claims had improved, but weaknesses remained. While FHA made progress on resolving unsupported partial claims in fiscal year 2018, it did not follow up with the Office of Program Enforcement (OPE) to determine whether it should refer seriously noncompliant lenders to the Mortgagee Review Board (MRB) for temporary suspension or termination. These lenders did not provide required supporting documentation, did not reimburse FHA for the partial claim plus incentive fee, or did not reach a settlement in a timely manner. The cases remained unresolved an average of 591 days after the execution of the partial claim. FHA is no longer waiting until 6 months after execution of partial claims to begin requesting payment from lenders that do not provide the supporting promissory note, and it is sending requests for payments more frequently and on average, in a timely manner and in accordance with its newly implemented process. However, for lenders that have not sent the recorded mortgage within 6 months, letters requesting reimbursement in the amount of the partial claim plus the incentive fee were sent between 33 and 62 days after the expiration of the 6-month period and on average, 48 days after the expiration of the 6-month period. Failure to collect from noncompliant lenders with unsupported partial claims is a deficient cash management practice and does not help improve the health of the Mutual Mortgage Insurance fund.

4. HUD's computing environment controls had weaknesses. HUD's computing environment, data centers, networks, and servers provide critical support to all facets of its program, mortgage insurance, financial management, and administrative operations. We audited the general and application controls over the internet server general support system (GSS) and selected information systems that support the preparation of HUD, FHA, and Ginnie Mae financial statements. We identified the following deficiencies:

   - HUD did not ensure that controls over its computing environment fully complied with Federal requirements. Specifically, we identified weaknesses related to HUD's internet server GSS and the OneStream and GrantSolutions applications maintained by shared service providers. The weaknesses identified with the internet server GSS occurred because HUD did not initiate actions in a timely manner to address known vulnerabilities and did not provide sufficient oversight and guidance to its IT support

[9] We define an obligation as inactive if a disbursement has not been made within a reasonable amount of time. This time varies based on program area and applicable criteria.

contractors. For OneStream and GrantSolutions, the weaknesses occurred because the shared service provider believed that it had an alternative security measure in place and HUD believed that its current processes were adequate.

- Ginnie Mae was not in full compliance with Federal information system controls requirements for its Integrated Pool Management System (IPMS). Our review of the general controls over IPMS identified deficiencies with (1) transaction security within the utility software of the Customer Information Control System transaction server of IPMS, (2) privileged accounts' password controls, (3) contractor employees' access controls, and (4) the review process for incompatible duties. These conditions occurred primarily due to Ginnie Mae's lack of sufficient oversight and as a result, increased the risk of unauthorized access and that erroneous or fraudulent transactions could be processed.

- FHA had security vulnerabilities with the management of controls of the Computerized Homes Underwriting Management System application. These conditions occurred due to a lack of sufficient oversight. We also determined that weaknesses previously reported with selected FHA information systems and the credit reform estimation and reestimation process had not been fully remediated.

As a result, the confidentiality, integrity, and availability of critical information may have been negatively impacted. Without adequate controls and oversight, there is no assurance that HUD's financial management applications and the data within them were adequately protected.

Intended Purpose of Report on Internal Control Over Financial Reporting

The purpose of this report is solely to describe the scope of our consideration of HUD's internal control over financial reporting and the results of our procedures and not to provide an opinion on the effectiveness of HUD's internal control over financial reporting. This report is an integral part of an audit performed in accordance with U.S. generally accepted government auditing standards in considering internal control over financial reporting. Accordingly, this report on internal control over financial reporting is not suitable for any other purpose. In addition to separate reports detailing the internal control issues included in this report and providing specific recommendations to HUD management, we noted other matters involving internal control over financial reporting and HUD's operations that we are reporting to HUD management in a separate management letter.

Report on Compliance With Laws and Regulations, Contracts, and Grant Agreements

We performed tests of HUD's compliance with certain provisions of laws and regulations, contracts, and grant agreements consistent with our auditor's responsibility discussed below. We caution that noncompliance may occur and not be detected by these tests. We performed our tests of compliance in accordance with Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Bulletin 19-01, Audit Requirements for Federal Financial

Statements. However, the objective of our audit was not to provide an opinion on compliance with laws and regulations. Accordingly, we do not express such an opinion.

Management's Responsibility

HUD's management is responsible for complying with laws, regulations, contracts, and grant agreements applicable to HUD.

Auditor's Responsibility

Our responsibility is to test compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements applicable to HUD that have a direct effect on the determination of material amounts and disclosures in HUD's consolidated financial statements and perform certain other limited procedures. Accordingly, we did not test compliance with all laws, regulations, contracts, and grant agreements applicable to HUD.

Results of Our Tests for Compliance With Laws, Regulations, Contracts, and Grant Agreements

Our tests for compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements disclosed five instances of noncompliance for fiscal year 2018 that would be reportable under U.S. generally accepted government auditing standards. However, the objective of our tests was not to provide an opinion on compliance with laws, regulations, contracts, and grant agreements applicable to HUD. Accordingly, we do not express such an opinion.

1. HUD's financial management system did not comply with the Federal Financial Management Improvement Act. In fiscal year 2018, we noted a number of instances of FFMIA noncompliance within HUD's financial management system. HUD's continued noncompliance with FFMIA was due to a high volume of material weaknesses, ineffectively designed and operating key internal controls over financial reporting, and longstanding issues related to component and program offices' system weaknesses that remained unresolved.

2. HUD and Ginnie Mae did not comply with the Debt Collection Improvement Act. HUD did not comply with the Debt Collection Improvement Act (DCIA), as amended, due to weaknesses in (1) establishing and collecting debts due HUD and (2) debt forgiveness and termination. The Act required that HUD refer delinquent debts to the Treasury within 120 days[10] and take all appropriate actions before discharging debts.[11] However, in

[10] Public Law 104-134—Apr. 26, 1996, 110 STAT. 1321 Sec. 31001. Debt Collection Improvement Act of 1996. (6) Any Federal agency that is owed by a person a past due, legally enforceable nontax debt that is over 180 days delinquent, including nontax debt administered by a third party acting as an agent for the Federal Government, shall notify the Secretary of the Treasury of all such nontax debts for purposes of administrative offset under this subsection. (Note: Effective May 9, 2014 agencies were required to transfer debts for administrative offset after 120 days in accordance with the DATA Act [Digital Accountability and Transparency Act of 2014]).

[11] Public Law 104-134—Apr. 26, 1996, 110 STAT. 1321 Sec. 31001. Debt Collection Improvement Act of 1996. 31 U.S.C. [United States Code] 3711(g)(9). Before discharging any delinquent debt owed to any executive, judicial, or legislative agency, the head of such agency shall take all appropriate steps to collect such debt, including (as applicable)— administrative offset, tax refund offset, Federal salary offset, referral to private collection

fiscal year 2017, we found that HUD did not always follow applicable requirements for establishing and collecting debts for the Housing Choice Voucher Program. Additionally, a separate program audit[12] identified similar weaknesses in the area of debt forgiveness and termination. Ginnie Mae also continued its noncompliance with the Act in fiscal year 2018. As reported in the past 3 fiscal years, Ginnie Mae continued to discharge (write off) uninsured mortgage deficiency debts without ensuring that before doing so, all debt collection tools allowed by law had been considered. These conditions still existed during the course of fiscal year 2018 because (1) PIH had not yet implemented necessary changes to its debt collection functions, (2) OCFO's efforts to coordinate with program offices had faltered, and (3) Ginnie Mae continued to challenge DCIA's applicability and the lack of progress in the finalization of the policy on master subservicer loss mitigation and debt collection practices. Therefore, HUD's and Ginnie Mae's noncompliance with the Act continues, and as a result, they are unable to recoup funds due them that could be used to serve the public.

3. <u>HUD did not comply with the Federal Credit Reform Act.</u> HUD did not perform annual technical reestimates for the Emergency Homeowners' Loan Program (EHLP) as required by the Federal Credit Reform Act. HUD stated that a decision was made in collaboration with OMB to not perform reestimates for EHLP; however, HUD could not provide documentation of the decision. As a result, the allowance for subsidy account is at risk of misstatement.

4. <u>HUD potentially violated the Antideficiency Act.</u> The OCFO Appropriations Law Division (ALD) had 10 ongoing investigations related to possible Antideficiency Act (ADA) violations. ALD had not maintained adequate documentation to support the status of its ongoing investigations. As a result, we were unable to assess the potential impact to HUD's financial statements from the potential ADA violations and compliance with the law.

5. <u>HUD did not comply with the Improper Payments Elimination and Recovery Act of 2010.</u> Our Improper Payments Elimination and Recovery Act (IPERA) audit[13] found that HUD did not comply with IPERA, as amended, in fiscal year 2017 because it did not conduct its annual risk assessment and failed to publish improper payment estimates in accordance with OMB guidance. This is the fifth consecutive year that HUD has not complied with IPERA. HUD's failure to comply occurred because its remediation plans that were intended to address many of the IPERA compliance issues were not in place at the end of fiscal year 2017. Therefore, HUD's programs continued to be vulnerable to the adverse effects of improper payments.

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contractors, referral to agencies operating a debt collection center, reporting delinquencies to credit reporting bureaus, garnishing the wages of delinquent debtors, and litigation or foreclosure.

[12] Audit Report 2017-LA-0005, HUD Did Not Always Follow Applicable Requirements When Forgiving Debts and Terminating Debt Collections

[13] Audit Report 2018-FO-0006, Compliance With the Improper Payments Elimination and Recovery Act, issued May 15, 2018`

Intended Purpose of Report on Compliance With Laws, Regulations, Contracts, and Grant Agreements

The purpose of this report is solely to describe the scope of our testing of compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements and the results of that testing and not to provide an opinion on compliance. This report is an integral part of an audit performed in accordance with U.S. generally accepted government auditing standards in considering compliance. Accordingly, this report on compliance with laws, regulations, contracts, and grant agreements is not suitable for any other purpose.

Results of the Audit of FHA's Financial Statements

We performed a separate audit of FHA's fiscal years 2018 and 2017 (restated) financial statements. Our report on FHA's financial statements[14] includes an unqualified opinion on FHA's financial statements, along with discussion of one material weaknesses and three significant deficiencies in internal controls.

Results of the Audit of Ginnie Mae's Financial Statements

We performed a separate audit of Ginnie Mae's fiscal years 2018 and 2017 (restated) financial statements. Our report on Ginnie Mae's financial statements[15] includes a disclaimer of opinion on these financial statements, along with discussion of four material weaknesses, one significant deficiency in internal control, and one instance of noncompliance with laws and regulations.

Objectives, Scope, and Methodology

We were engaged to audit HUD's consolidated fiscal year 2018 financial statements in accordance with Government Auditing Standards and the requirements of OMB Bulletin 19-01. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. Our responsibility is to express an opinion on the financial statements based on conducting the audit in accordance with auditing standards generally accepted in the United States of America. Because of the matters described in the Basis for Disclaimer of Opinion section above, we were not able to obtain sufficient, appropriate audit evidence to provide a basis for an audit opinion. As part of our engagement to audit HUD's fiscal year 2018 consolidated financial statements, we considered HUD's internal controls over financial reporting. We are not providing assurance on those internal controls. Therefore, we do not provide an opinion on internal controls. We also tested HUD's compliance with laws, regulations, governmentwide policies, and provisions of contract and grant agreements that could have a direct and material effect on the financial statements. However, our consideration of HUD's internal controls and our testing of its compliance with laws, regulations, governmentwide policies, and provisions of contract and grant agreements was not designed to and did not provide sufficient evidence to allow us to express an opinion on such matters and would not necessarily disclose all matters that might be material weaknesses; significant deficiencies; or noncompliance with laws, regulations, governmentwide policies,

[14] Audit Report 2019-FO-0002, Audit of the Federal Housing Administration's Financial Statements for Fiscal Years 2018 and 2017 (Restated), issued November 14, 2018, was incorporated into this report.

[15] Audit Report 2019-FO-0001, Audit of the Government National Mortgage Association's Financial Statements for Fiscal Years 2018 and 2017 (Restated), issued November 13, 2018, was incorporated into this report.

and provisions of contract and grant agreements. Accordingly, we do not express an opinion on HUD's internal controls or its compliance with laws, regulations, govcrnmentwide policies, and provisions of contract and grant agreements.

With respect to information presented in HUD's "required supplementary stewardship information" and "required supplementary info1mation" and management's discussion and analysis presented in HUD's fiscal year 2018 agency financial report, we performed limited testing procedures as required by the American Institute of Certified Public Accountants' Clarified Statements on Auditing Standards, AU-C 730, Required Supplementary Information. Our procedures were not designed to provide assurance, and, accordingly, we do not provide an opinion on such information.

Agency Comments and Our Evaluation

HUD's CFO provided comments to our draftindependent auditor's report on November 9, 2018. The CFO's comments, in their entirety, are presented in appendix A. We reviewed management's response and determined HUD is generally in agreement with the internal control weaknesses cited in our report. We will work with HUD during the audit resolution process to evaluate HUD's progress in developing and implementing corrective action plans to address these findings.

Kimberly R. Randall
Acting Assistant Inspector General for Audit
Washington, DC

November 15, 2018

Independent Auditor's Report

Appendix A

Auditee Comments to Independent Auditor's Report

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-3000

CHIEF FINANCIAL OFFICER

HUD OCFO MEMO 18-39

NOV 9 2018

MEMORANDUM FOR: Thomas R. McEnanly, Director of Financial Audits Division, HUD, GAH

11/9/18

FROM: Irving L. Dennis, Chief Financial Officer, HUD, F

SUBJECT: Response to Fiscal Year 2018 Financial Statement Audit – Transmittal of Draft Fiscal Year 2018 Independent Auditor's Report on HUD's Fiscal Year 2018 and 2017 Consolidated Financial Statements

HUD is committed to fulfilling its mission to create strong, sustainable, inclusive communities and quality affordable homes for American families and individuals. The work of HUD's Office of Inspector General (OIG) helps to ensure that HUD programs and employees work to successfully accomplish these goals.

HUD agrees that it cannot continue to operate in the absence of a clean audit opinion, and we are committed to making the business process changes necessary to resolve the longstanding material weaknesses in internal controls. We look forward to working with the OIG to identify the weaknesses that have the largest impact on the disclaimer condition, will again focus our remediation efforts to achieve the greatest results, and are prepared for a full audit of Ginnie Mae during FY 2019.

We look forward to continuing to build our relationship with the OIG as we work to address these and any future changes facing HUD and the communities we serve. Specifically, we are focused on four areas of operational improvement: accountability, increased transparency, interagency collaboration, and a greater commitment to measuring outcomes.

These efforts will go a long way in making HUD more efficient and effective, and help to ensure the progress made this year continues to reap increasingly beneficial results. The entire HUD team is committed to tackling these challenges head-on. Working with OIG, HUD will continue to identify and implement solutions that will help ensure weaknesses impacting the audit opinion are adequately addressed.

We appreciate that the OIG is committed to HUD's missions, and is working to help provide us with actionable recommendations that will improve operations.

Section 3
Other Information

Office of Inspector General's Report on Management and Performance Challenges for FY 2019 and Beyond

U.S. DEPARTMENT OF
HOUSING AND URBAN DEVELOPMENT
OFFICE OF INSPECTOR GENERAL

Memorandum

Date:	October 15, 2018
To:	Dr. Benjamin S. Carson, Sr. Secretary, S
From:	Helen M. Albert Acting Inspector General, G
Subject:	Management and Performance Challenges for Fiscal Year 2019 and Beyond

Each year, in compliance with Public law 106-531, the Reports Consolidation Act of 2000, the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General (OIG), issues a report summarizing what we consider to be the most serious management challenges facing the Department. In turn, HUD is required to include it in its annual agency financial report. This report represents HUD OIG's perspective on the top management challenges facing HUD in fiscal year 2019.

HUD's top management challenges result from critical unaddressed internal or external risks, either longstanding or recently emerged. They represent HUD's greatest vulnerabilities to waste, fraud, abuse, and mismanagement or pose significant risk to HUD's ability to achieve its mission. In developing this report, we considered the issues facing HUD and applied our own judgment. This year, we took a different approach to the design and content of this report. We focused on those risks we believe have the greatest potential impact on HUD's ability to succeed. As a result, some issues facing HUD that appeared in previous years' top management challenges are not included in this report, while others are entirely new.

We have identified six top management challenges, listed in no particular order, that impact HUD's ability to meet the needs of its beneficiaries and protect taxpayer dollars:

1. Ensuring the availability of affordable housing that is decent, safe, sanitary, and in good repair
2. Protecting the Federal Housing Administration's mortgage insurance funds
3. Providing adequate monitoring and oversight of its operations and program participants
4. Administering disaster recovery assistance
5. Modernizing technology and the management and oversight of information technology
6. Instituting sound financial management governance, internal controls, and systems

We believe that our revised approach to the top management challenges will be more useful to HUD officials and external stakeholders. Aligning with our mission of identifying opportunities for HUD programs to progress and succeed, this report will also serve as a guiding document for our OIG-wide oversight activities. We look forward to working with HUD to address these critical areas for improvement.

Introduction

In a general sense, the U.S. Department of Housing and Urban Development (HUD) is meeting its mission to create strong, sustainable, inclusive communities and quality, affordable homes for all. HUD has awarded grants, issued mortgage insurance, provided housing assistance, and performed basic services. Yet HUD continues to demonstrate longstanding performance and accountability issues.

In 1994, the U.S. Government Accountability Office (GAO) placed HUD on its high-risk list because of four longstanding, departmentwide management deficiencies: 1) weak internal controls, such as a lack of necessary data and management processes; 2) poorly integrated, ineffective, and generally unreliable information and financial management systems; 3) organizational deficiencies, such as overlapping and ill-defined responsibilities and authorities between HUD headquarters and field organizations, and a fundamental lack of management accountability and responsibility; and 4) an insufficient mix of staff with the proper skills.[1] Although GAO noted these problems more than 20 years ago, these challenges remain today and are addressed in this report.

Constant turnover and extended vacancies in many of HUD's most important political and career executive positions have created leadership gaps, which have led to poor management decisions and questionable execution of internal business functions. HUD could not fill essential positions with officials who stayed long enough to implement a vision and effect sustained positive changes.

Many, if not all, of HUD's top management challenges are affected by its staffing levels, which have declined substantially since the time of that GAO report. From its highest staffing levels in 1991, HUD's staffing has fallen more than 49 percent.[2] During the 10-year period from 2008 to 2017, HUD lost 18.5 percent of its full-time permanent staff, while the total had increased 11 percent governmentwide.[3] HUD suffered a staffing loss greater than any other cabinet-level department during this time. Not surprisingly, 4 of HUD's top 10 self-identified enterprise risks in 2018 were related to human capital. Many roles previously performed by Federal employees are now outsourced to contractors, leaving fewer Federal employees to perform the inherently governmental responsibilities of performance management, organizational leadership, policymaking, financial management, and monitoring. We intend to conduct more reviews in this area in the future.

With that backdrop, we discuss below what we see as the top six management challenges facing the Department.

[1] As described by GAO report, entitled High Risk Series: Department of Housing and Urban Development, February 1995: https://www.gao.gov/assets/230/220893.pdf

[2] Data collected from HUD as part of the 2018 financial audit

[3] Office of Personnel Management Report, Sizing Up the Executive Branch, February 2018: https://www.opm.gov/policy-data-oversight/data-analysis-documentation/federal-employment-reports/reports-publications/sizing-up-the-executive-branch-2016.pdf

TOP MANAGEMENT CHALLENGE

1

Ensuring the Availability of Affordable Housing That Is Decent, Safe, Sanitary, and in Good Repair

- Affordable Housing
- Safe Housing
- Housing Inspections

Part of HUD's mission is to create quality, affordable homes for all. The housing HUD insures and funds must be decent, safe, sanitary, and in good repair. Economic and demographic factors, as well aging housing stock, have created an extreme shortage of housing that is affordable and safe. HUD's challenge is to adapt existing programs to address ever-increasing housing pressures on the Nation's lowest income residents. A lack of affordable and safe housing is already negatively affecting the health, safety, and well-being of many people. Robust action is needed by HUD to ensure that the quality and quantity of affordable and safe housing increases.

Affordable Housing

HUD has several programs designed to ensure affordable housing for low-income households. The largest of these are public housing and rental housing assistance programs. Although millions of American households are assisted through these programs every year, HUD's Office of Policy Development and Research has found that the supply of rental units that are affordable to very low-income renters is inadequate, with only 62 affordable units available per 100 very low-income renters and only 38 units available per 100 extremely low-income renters.[4] Further, because of the rapid increase in renter households and greater competition, that scarcity of affordable units is now impacting people higher on the income scale.

[4] Worst Case Housing Needs, 2017 Report to Congress, The Office of Policy Development and Research, August 2017

HUD has stated that a family with one full-time worker earning the minimum wage cannot afford the local fair-market rent for a two-bedroom apartment anywhere in the United States

HUD has stated that a family with one full-time worker earning the minimum wage cannot afford the local fair-market rent for a two-bedroom apartment anywhere in the United States.[5]

HUD's strategies to address affordable housing include promoting economic self-sufficiency programs that will reduce the need for HUD assistance, encouraging public housing agencies (PHA) to transition public housing units to a private-public partnership model, and modifying the rental calculation system "to encourage work and stable family formation."[6] Earlier this year, HUD launched the EnVision Center demonstration to centralize resources from various public and private entities to empower low-income individuals and families to "lead self-sufficient lives." The vision for each center is to help HUD-assisted families sustain economic success, cultivate nontraditional education options, increase access to health and wellness, and assist individuals in reaching their full potential.[7] In addition, in August 2018, HUD established a task force to encourage more landlords to participate in the Housing Choice Voucher Program. We will continue to monitor HUD's efforts to increase the availability of quality, affordable housing as HUD implements these strategies to address this challenge.

Safe Housing

HUD has a strategic goal to remove lead-based paint and other health and safety hazards in housing for families and children. This goal is commendable. Recent events at the New York City Housing Authority (NYCHA), for example, demonstrate the challenge HUD faces in implementing it. For years, NYCHA violated key HUD and U.S. Environmental Protection Agency (EPA) lead paint safety regulations, including failing to inspect apartments for lead paint hazards and remediate peeling lead paint. Work we completed in 2018 supports the fact that HUD did not ensure that PHAs properly reported and mitigated cases involving children with lead contamination, establish policies and procedures for reporting children with lead contamination, or ensure completion of required lead-based paint inspections.[8]

In 2016 and 2017, we reported that HUD did not provide sufficient guidance and oversight to ensure that properties approved for mortgage insurance had a continuing and sufficient supply

[5] HUD's program definition of affordable housing, https://www.hud.gov/program_offices/comm_planning/affordablehousing/

[6] HUD's strategic plan includes a strategy to "Develop a legislative proposal that modifies the rental calculation system to encourage work and stable family formation, simplifies administration, improves fiscal sustainability, and increases local control and choice." Page 13, https://www.hud.gov/sites/dfiles/SPM/documents/HUDSTRATEGICPLAN2018-2022.pdf

[7] https://www.hud.gov/envisioncenters

[8] Audit Report 2018-CH-0002, HUD's Oversight of Lead-Based Paint in Public Housing and Housing Choice Voucher Programs, issued June 14, 2018

of safe and potable water.[9] HUD's loan files for properties in areas serviced by public water systems with publicly reported unacceptable levels of contaminants did not provide evidence that the water was tested to ensure that it was safe before issuing the loan. In some cases, properties were later found to have lead and copper levels above EPA's acceptable levels. As a result, HUD could be endorsing loans for properties with contaminants that affect families' health. This issue represents an ongoing safety concern. HUD has said that it intends to address this issue by July 2019.

In addition to the dangers posed by lead in paint and water, some people living in HUD properties have an increased risk of contamination from hazardous waste sites, commonly called Superfund sites.[10] After elevated levels of lead were found in the blood of 21 children at the West Calumet Housing Complex in East Chicago in 2016, HUD worked with EPA to identify its properties nationwide that were near Superfund sites. EPA found that there were 18,158 HUD-assisted buildings within 1 mile of a Superfund site. EPA also found that approximately 41 percent of the sites had not been cleaned, had ongoing human exposure to toxins, had soil contamination, or had no data to determine the exposure status.[11] HUD received this information from EPA in October of 2016, yet it has not conducted an analysis to determine which sites pose the greatest risk to residents, and it has not tested sites to determine whether contaminants exist, which could endanger nearby residents.

In 2017, we began an initiative to investigate cases of children with elevated blood lead levels living in subsidized housing. In March 2018, due to this initiative, we recommended, among other things, that public housing units be tested using wipe samples or x-ray fluorescence spectrum analyzer tests, which are more reliable tests for lead than is currently used; soil samples be analyzed for lead contamination in pre-1978 units; and drinking water be analyzed for lead contamination regardless of the unit's construction date.[12] We plan to continue to produce work products that we believe will provide HUD assistance in addressing this challenge.

Housing Inspections

HUD has a considerable challenge to provide oversight of its properties to ensure that they are decent, safe, sanitary, and in good repair. HUD's Real Estate Assessment Center (REAC) assesses the physical condition of many of HUD's insured and subsidized properties through inspections. We have found instances in which inspection scores rated the physical condition of a property better than it was and as a result, qualified it for less frequent inspections, decreasing

[9] Audit Report 2016-PH-0003, HUD Did Not Ensure That Lenders Verified That FHA-Insured Properties in Flint, MI, Had Safe Water, issued July 29, 2016, and Audit Report 2017-PH-0003, Oversight of Safe Water Requirements for FHA-Insured Loans Nationwide, issued September 29, 2017

[10] The Comprehensive Environmental Response, Compensation, and Liability Act, commonly known as Superfund, was enacted by Congress on December 11, 1980. Superfund sites are contaminated sites that exist due to hazardous waste being dumped, left out in the open, or otherwise improperly managed. These sites include manufacturing facilities, processing plants, landfills, and mining sites.

[11] Report entitled EPA/HUD NPL Proximity Analysis, October 2016

[12] Systemic Implication Report number FY17-002, SIR Pertaining to Lead-Based Paint Hazards in Housing, issued March 15, 2018

oversight. For example, at the Alexander County Housing Authority in Illinois, an artificially high inspection score in 2013 contributed to reduced oversight by HUD, while the true condition of the buildings continued to deteriorate.[13] Only 5 years later, some of the buildings with these inflated scores are scheduled for demolition, and residents have been displaced. This was also the case with inspection scores for residential care facilities (for example, nursing homes, assisted living facilities, and board and care homes, etc.), which did not accurately reflect the overall condition of the facilities.[14] Without sufficient and accurate inspections, the living conditions for residents may degrade, and the value of the collateral HUD insures may decline.

REAC relies on contractors to inspect HUD-assisted properties. In a recent audit, we looked at HUD's processes for and controls over the certification and monitoring of contracted inspectors. HUD is not ensuring that the people inspecting properties meet minimal qualifications and certification requirements to perform inspections, which ensure that those properties are safe, decent, sanitary, and good repair.[15]

[13] Evaluation Report 2017-OE-0014, HUD's Oversight of the Alexander County Housing Authority, issued July 24, 2018

[14] Audit Report 2018-CF-0801, HUD Did Not Provide Acceptable Oversight of the Physical Condition of Residential Care Facilities, issued January 5, 2018

[15] Audit Report 2018-FW-0003, REAC Could Improve Its Inspections Processes and Controls, issued August 31, 2018

TOP MANAGEMENT CHALLENGE

2

Protecting the FHA Mortgage Insurance Fund

- A Lack of Sufficient Safeguards in FHA's Mortgage Insurance Program
- Large Losses to FHA's MMI Fund Due to HECM
- Increase in Ginnie Mae's Nonbank Issuer Base
- Potential Emerging Risks Related to a Market Shift Toward an Entirely Digital Mortgage Life Cycle

HUD, through the Federal Housing Administration (FHA), insures approximately 25 percent of all mortgages in the United States. Using the Mutual Mortgage Insurance fund (MMI),[16] FHA insures lenders against losses when borrowers default on loans, which allows lenders to make loans to individuals who might otherwise not be eligible for a conventional mortgage. As of June 2018, FHA insured a portfolio of more than 8 million mortgages with an outstanding principal balance of nearly $1.2 trillion. From April 2017 through March 2018, the MMI fund paid out almost $14 billion. For those claims for which the lender conveyed the property to HUD and HUD resold the property, HUD recovered only about 54 percent of the funds paid out.

The Government National Mortgage Association (Ginnie Mae) is a self-financing, wholly owned U.S. Government corporation within HUD. It is focused on providing investors a guarantee backed by the full faith and credit of the United States for the timely payment of principal and interest on mortgage-backed securities (MBS) secured by pools of government home loans,

[16] The MMI fund is a Federal fund that insures mortgages guaranteed by FHA. The MMI fund supports both FHA mortgages used to buy homes and reverse mortgages used by seniors to extract equity from their homes.

which are insured or guaranteed by (1) FHA, (2) HUD's Office of Public and Indian Housing (PIH), and other Federal Government loan programs. The purchasing, packaging, and reselling of mortgages in a security form frees up funds used by lenders to provide more loans. Ginnie Mae has an outstanding portfolio of MBS securities valued at $2 trillion and outstanding MBS commitments of $128 billion.

HUD is challenged in protecting the FHA mortgage insurance program. Without sufficient controls, oversight, and effective rules, FHA's MMI fund is at risk of unnecessary losses. Further, if insurance fees collected from borrowers cannot support the fund, additional funding from the U.S. Department of the Treasury is required, as authorized for Federal credit programs. HUD is also challenged by the significant increase in the number of nonbanks issuing MBS pools that are guaranteed by Ginnie Mae.

In protecting the FHA and Ginnie Mae programs, HUD is confronted with

1. a lack of sufficient safeguards in FHA's mortgage insurance program,
2. large losses to the insurance fund due to home equity conversion mortgages (HECM),
3. an increase in Ginnie Mae's nonbank issuers, and
4. potential emerging risks related to a market shift toward an entirely digital mortgage life cycle.

A Lack of Sufficient Safeguards in FHA's Mortgage Insurance Program

In 2008, as a result of the financial crisis, FHA lenders became one of the main mortgage lenders in the single-family mortgage market. With the resulting increased market share, the FHA MMI fund faced greater risk. FHA has failed to develop sufficient safeguards to protect the MMI fund from this increased risk.

One example is that FHA failed to create safeguards, which would prevent loan servicers that do not meet foreclosure and conveyance deadlines from incurring excessive holding costs. These costs are then transferred to HUD and reimbursed to the servicers as part of the insurance claim on the defaulted mortgage.

In October of 2016, we projected that HUD paid claims for nearly 239,000 properties that servicers did not foreclose upon or convey on time. As a result, HUD paid an estimated $2.23 billion in unreasonable and unnecessary holding costs over a 5-year period.

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These excessive costs were allowed to occur because HUD regulations do not establish a maximum period for filing a claim and do not place limitations on holding costs when servicers do not meet all deadlines. HUD previously started the rulemaking process to address these issues but withdrew its efforts based on concern from mortgage servicers.

If HUD does not pursue changes to FHA program regulations, these excessive costs will continue to negatively affect the MMI fund.[17]

Additionally, FHA lacks sufficient safeguards to prevent it from improperly insuring single-family loans. For example, we identified ineligible loans made to borrowers with delinquent Federal debt or who were subject to Federal administrative offset for delinquent child support. In calendar year 2016 alone, we estimate that FHA, through its approved lenders, insured more than 9,500 ineligible loans worth $1.9 billion.[18] As a result, the MMI fund faces a higher risk of loss.

Large Losses to FHA's MMI Fund Due to HECMs

HECM is a reverse mortgage program that enables elderly homeowners to borrow funds using the equity in their homes. In HUD's 2017 Annual Report to Congress[19] regarding the financial status of the MMI fund, HUD reported that the reverse mortgage program continued to have a *negative* impact on the fund. The report cited that the HECM portfolio had a capital ratio of negative 19.84 percent and an economic net worth of negative $14.5 billion. This declaration by HUD is compelling, largely because HECM origination volume has trended up for most of the past 20 years. This trend would indicate that the negative performance would accelerate as the larger volumes mature.

The reverse mortgage program is complicated and ripe for a host of fraud schemes due to the program intricacies and implementation. Updating its rules and policies would help reduce some of the inherent issues. For example, housing counseling is required to obtain the loan, but HUD does not require that these sessions be conducted in person. A great majority of these counseling sessions take place over the telephone. A housing counselor would not know whether he or she was speaking with the borrower or someone posing as the borrower or whether an interested party or family member was coaching the elderly borrower. From a 2016 report by the National Center on Elder Abuse, almost 58 percent of people who take advantage of older adults' finances are family members.[20]

[17] Single-Family Mortgage Insurance Claims, 2017-KC-0001, issued October 14, 2016

[18] Audit Report 2018-KC-0001, FHA Insured $1.9 Billion in Loans to Borrowers Barred by Federal Requirements, issued March 26, 2018

[19] Annual Report to Congress Regarding the Financial Status of the FHA Mutual Mortgage Insurance Fund, Fiscal Year 2017, published November 15, 2017: https://www.hud.gov/sites/dfiles/CFO/documents/2017fhaannualreport.pdf

[20] Elder Abuse Awareness Day Spotlights Reverse Mortgage Consumer Protections," June 15, 2016, by Alana Stramowski

Further, a property's home value is one of the key factors in determining the amount allowed for the loan. To ensure that the home is valued accurately, it is important to verify that appraisers are independent and have no financial interest in the transaction. We have reported instances of fraudulent appraisals being used to increase HECM loan amounts to qualify senior borrowers for larger HECM loans. Our investigations have revealed HECM appraisals in which appraisers claim that the property values have increased by 60 to 100 percent, while other properties in the same area are appreciating only 3 to 4 percent.[21]

To help address this issue, on September 28, 2018, FHA released Mortgagee Letter 2018-06, which requires a second appraisal for certain HECMs. Given the volatility in the HECM program and its disproportionate effect on the MMI fund, FHA has decided to require that higher risk HECMs undertake a second appraisal to ensure credibility in assessing the collateral risk. In situations in which there is a second appraisal, the lower value appraisal is to be used in originating the loan.

In addition to fraudulent appraisals, we have seen that delayed claim reporting by the servicers or financial institutions adds many additional costs to the HECM claim, which the MMI fund ultimately must pay. These costs could be mitigated by closer oversight of claims and lenders' compliance with self-curtailment rules.

Increase in Ginnie Mae's Nonbank Issuer Base

Ginnie Mae's business has increasingly relied on nonbanks, which now represent most annual security issuances. Nonbanks are financial institutions that offer only mortgage-related services. Nonbanks serving as Ginnie Mae issuers take full responsibility for servicing, remitting, and reporting activities for the mortgages in each of their pools. In fiscal year 2016, nonbank issuers accounted for 73 percent of Ginnie Mae's single-family MBS issuance volume for the year, up from 51 percent in June 2014 and from 18 percent in fiscal year 2010. As we and Ginnie Mae have reported, the increase in the number of nonbank issuers and their complexity continues to present an unmitigated challenge for monitoring efforts.[22]

In a September 2017 audit, we found that Ginnie Mae was not prepared for the rapid growth and shift from banks to nonbanks in its issuer base and its staff lacked the skills necessary to immediately respond to increased risks posed by these changes. As a result, Ginnie Mae may not identify problems with issuers in time to prevent a default. A default would occur if the issuer did not pay investors in a timely manner. Additionally, Ginnie Mae may not be able to properly service mortgages absorbed in a default and may require additional funds from the U.S. Treasury to pay investors if a large issuer default occurs.[23]

[21] Industry Alert: Reverse Mortgage Refinancing, November 30, 2015
[22] OIG Topic Brief, Monitoring of Nonbank Issuers, February 28, 2017
[23] Audit Report 2017-KC-0008, Ginnie Mae Did Not Adequately Respond to Changes in Its Issuer Base, issued September 21, 2017

We had also identified shortcomings in Ginnie Mae's issuer default governance framework when conducting Ginnie Mae's fiscal year 2016 financial statement audit. At that time, Ginnie Mae lacked a formal process and protocol to establish this framework, which could lead to failing to properly capture the loss contingencies measured under the MBS program guaranty financial statement line item. This framework includes the identification, monitoring, analysis, evaluation, and response to potential issuer defaults. As part of its corrective action plans to address issuer defaults, Ginnie Mae is developing the Default Playbook, which attempts to create a new framework to address issuer default management. During fiscal year 2018, significant strides were made in improving and operationalizing the playbook; however, it is an ongoing project with an expected completion date of September 30, 2019.

Potential Emerging Risks Related to a Market Shift Toward an Entirely Digital Mortgage Life Cycle

The mortgage industry is moving toward an entirely electronic loan process. FHA and Ginnie Mae intend to do the same. However, HUD, particularly FHA, has well-known technology challenges as described later in this document. Adding new platforms and security measures required for digital mortgages presents potentially significant risks to the agency, industry, and consumer. Risks include information security, data transfers and platform integration, and system functionality, all of which could lead to fraudulent activities.

TOP MANAGEMENT CHALLENGE

3

Providing Adequate Monitoring and Oversight of its Operations and Program Participants

- Insufficient Monitoring of Its Operations
- Monitoring and Oversight of Its Programs and Program Participants

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HUD continues to struggle with effective oversight controls, which in turn impacts its ability to monitor its operations and program participants. About $48.2 billion a year passes through HUD to State and local governments, organizations, and individuals in the form of grants, subsidies, and other payments. HUD's work is critical to strengthening these communities, bolstering the economy, and improving individuals' quality of life. However, HUD continues to face challenges with effective program management of the nearly $50 billion in Federal funds targeted for these individuals and entities. For example, in fiscal year 2018, our reports identified more than $1.3 billion in questioned cost[s24] and nearly $4.7 billion in funds put to better use.[25] As stated earlier in the introduction of this document, HUD's personnel levels have declined significantly over time. This situation has impacted its ability to sufficiently monitor and oversee its operations and program recipients.

[21] Questioned costs - Costs that have been challenged during the audit by the auditor and are comprised of three categories of costs: ineligible costs, unsupported costs, and unnecessary or unreasonable costs.

[25] Funds put to better use – Funds to be put to better use quantify monetary savings from management actions, in response to OIG recommendations, which prevent improper obligations or expenditures of agency funds or avoid unnecessary expenditures.

Insufficient Monitoring of its Operations

For many years, we have reported on HUD's lack of compliance with GAO's internal control standards. GAO's Standards for Internal Control in Federal Government provide the framework for, in part, establishing and maintaining internal control, known as management control.[26]

HUD's handbook that establishes HUD's management control program to comply with provisions of significant laws and regulations implemented the requirement for management control reviews (MCR).[27] The handbook details the roles and responsibilities of individual program offices regarding the internal controls over HUD programs and administrative functions. It also details key processes – including MCRs – which each program office must follow to provide reasonable assurance that programs and activities are effectively and efficiently managed and are protected against fraud, waste, abuse, and mismanagement.

Beginning in 2015, we reported that HUD was not conducting routine or timely MCRs and could not ensure that its programs were operating as intended. In fiscal year 2016, GAO cited governance weaknesses specifically related to HUD's inconsistent performance of key departmental monitoring controls, such as program evaluations that evaluate the effectiveness of a program.

In fiscal year 2017, we found that HUD did not conduct any routine or timely MCRs for its programs as required by HUD guidance. The HUD handbook that establishes HUD's management control program has been under revision for more than a year, prolonging the absence of guidance required for these reviews.

In fiscal year 2017, we found that HUD did not conduct any routine or timely MCRs for its programs as required by HUD guidance.[28] The HUD handbook that establishes HUD's management control program has been under revision for more than a year, prolonging the absence of guidance required for these reviews.

Inconsistent performance of MCRs deprives management of an important monitoring tool that should provide key feedback on the effectiveness and efficiency of departmental operations.[29]

[26] GAO-14-704G, issued September 10, 2014

[27] An MCR is a detailed evaluation of the complete system of management controls in a functional area.

[28] HUD Handbook 1840.1

[29] Additional Details To Supplement Our Fiscal Years 2017 and 2016 (Restated) U.S. Department of Housing and Urban Development Financial Audit, 2018-FO-0004, issued November 15, 2017; Additional Details To Supplement Our Fiscal Years 2016 and 2015 (Restated) U.S. Department of Housing and Urban Development Financial Statement Audit 2017-FO-0003, issued November 15, 2016; Additional Details To Supplement Our Fiscal Years 2015 and 2014 (Restated) U.S. Department of Housing and Urban Development Financial Statement Audit 2016-FO-0003, issued November 18, 2015

Efforts to implement associated recommendations offered by OIG or GAO have been halted due to unclear responsibility for the management control program between the Office of the Chief Financial Officer (OCFO) and the Office of Strategic Planning and Management. Therefore, MCRs have not improved in consistency, frequency, or timeliness.

Monitoring and Oversight of its Programs and Program Participants

Over time, we have demonstrated that HUD's lack of sufficient monitoring limits its ability to prevent and detect fraud, waste, and mismanagement. Specifically, grantees and PHAs have not been able to support or have misspent millions of dollars, with little risk of detection or suffering repercussions for mismanagement of the funds. In addition, HUD's monitoring did not always identify and address the root causes of residential care facilities' financial or operational challenges.

Monitoring of Grantees:

Approximately 16 percent of HUD's annual appropriations are provided as grants through its Office of Community Planning and Development (CPD) in its charge to develop viable communities by promoting integrated approaches that provide decent housing and a suitable living environment and expand economic opportunities for low- and moderate-income persons. To achieve these goals, CPD relies upon partnerships with all levels of government and the private sector. Grant recipients in turn often use subgrantees, other government agencies, and private-sector companies to help them accomplish their objectives.

In fiscal years 2014 through 2017, at least 21 of our audits of CPD programs have found little or no monitoring of the grantees. In 2017,[30] we found challenges with the field office risk assessment process. We found that field office staff did not follow CPD risk assessment and monitoring requirements and field office management responsible for reviewing staff performance did not correct the noncompliance of staff members performing these functions. In addition, the headquarters desk officer review function was administrative in focus and failed to note noncompliance. Therefore, we determined that CPD could not be assured that its field offices correctly identified high-risk grantees or conducted adequate monitoring to mitigate risk to the integrity of CPD programs. Consequently, in 2018,[31] we performed a comprehensive review of CPD's monitoring and reported that its risk assessment and monitoring did not provide effective oversight of programs and grantees. CPD headquarters did not have effective supervisory controls and structured the risk assessment and monitoring model so that CPD field office directors would have substantial responsibility for ensuring the accuracy and effectiveness

[30] Audit Report 2017-FW-0001, HUD's Office of Community Planning and Development Did Not Appropriately Assess State CDBG Grantees' Risk to the Integrity of CPD Programs or Adequately Monitor Its Grantees, issued July 10, 2017

[31] Audit Report 2018-FW-0001, CPD's Risk Assessment and Monitoring Program Did Not Provide Effective Oversight of Federal Funds, issued June 26, 2018

of the model. CPD headquarters' responsibility for the model was limited to the design and general policy development, along with administrative matters. As a result, CPD did not have assurance that it correctly assessed grantee risk, prepared accurate work plans, or monitored grantees in compliance with requirements. Accordingly, CPD could not have confidence regarding accuracy, validity, or conclusions drawn.

In its 2019 congressional budget justification,[32] CPD stated that it monitored only 13 percent of the grantees in its portfolio. Given the extent of findings uncovered in our grantee audits, limited monitoring hinders HUD in identifying poorly performing grantees. The challenge for CPD is the growing inventory of open grants caused by the annual award of multiyear grants, more disaster grants, and the backlog of grant closings.

CPD's staffing and travel budgets continue to decrease, making new risk-based strategies imperative. While CPD is trying to increase its oversight through remote monitoring, its effectiveness will continue to be hampered by the reliability of the information and level of detail it receives from the grantee.

During our 2014 annual financial statement audit, we discovered that CPD had waived the Office of Management and Budget (OMB) requirement for its grantees to complete the Federal Financial Report, Standard Form (SF) 425.[33] When questioned, CPD acknowledged that this practice had been ongoing for some time and continued. The SF-425 report captures information regarding the obligations and disbursements that occurred during the grant period and the program income earned as a result of work performed as part of the grant agreement. If obtained, this information would provide CPD a window to the financial status of each open grant award. This would assist CPD to determine whether grantees complied with applicable regulations and statutes, thus strengthening its monitoring and oversight of grantees. The data also provides valuable financial information that OCFO can use to perform financial management and accounting analyses to ensure accurate financial reporting of HUD's programs. Data collected from this form could have been used to address major financial reporting weaknesses that have contributed to HUD's disclaimer of opinion on its consolidated financial statements for the last 5 years.

Monitoring of PHAs:

The role of PIH is to ensure safe, decent, sanitary, and affordable housing; create opportunities for residents' self-sufficiency and economic independence; and assure fiscal integrity by all program participants. Approximately 35.3 percent of HUD's annual appropriations flow through PIH. A large portion of PIH funding is spent on its Housing Choice Voucher Program, which

[32] HUD 2017 congressional budget justification, accessed https://www.hud.gov/sites/documents/FY_2017_CJS_COMBINED.PDF

[33] OMB Standard Form 425 – Federal Financial Report, to track the status of financial data tied to a particular Federal grant award. See the top management challenges on monitoring and oversight and financial management system weaknesses for additional information.

is administered by PHAs. HUD electronically monitors the voucher program through a system that is reliant upon PHAs' self-assessments and self-reported information. Past audits and HUD's onsite reviews have confirmed that self-assessments are not always accurate, causing us to question the reliability of the information in PIH systems. Due to its limited funding for new systems development and staffing constraints, PIH employs a risk-based approach to monitoring. Currently, HUD uses a Two-Year Tool to analyze a PHA's utilization situation and a National Risk Assessment Tool to determine which PHAs need increased monitoring or technical assistance, based on their performance, amount of funding, and compliance scores. HUD will continue to face challenges in monitoring this program until it has fully implemented a reliable, real-time, and all-inclusive monitoring tool.

In an attempt to streamline activities to provide relief to PHAs, PIH allowed PHAs to use a fee-for-service model to pay a central office cost center for certain costs rather than allocating overhead costs. This practice affects Housing Choice Voucher, Public Housing Operating Fund, and Public Housing Capital Fund program funds. Once paid to the central office cost center, the funds are defederalized, meaning they are no longer required to be spent on the respective PIH programs. Past audits questioned HUD's lack of support for its central office cost center fee limits and found that PHAs transferred ineligible and unsupported funds to the central office cost centers. In response, HUD started the rulemaking process so program funds paid to the central office cost center would maintain their status as Federal funds. HUD also agreed to assess the reasonableness of the central office cost center fee limits regularly.

Additionally, we reported that HUD lacked adequate justification for allowing PHAs to charge an asset management fee, resulting in more than $81 million in operating funds being unnecessarily defederalized annually. HUD has not yet corrected this issue. Therefore, we continue to have concerns about the fee's necessity. However, our concerns should be mitigated when HUD implements the rule federalizing the amounts and restricting their use.[34]

Monitoring of Section 232 Residential Care Facilities:

FHA provides mortgage insurance for residential care facilities, such as nursing homes, assisted living facilities, and board and care homes. Insurance can cover the purchase, refinance, new construction, or substantial rehabilitation of a project. In a recent audit, we found that HUD's monitoring was not effective in addressing problems at 18 financially challenged nursing homes reviewed.

[34] Audit Report 2014-LA-0004, HUD Could Not Support the Reasonableness of the Operating and Capital Fund Programs' Fees and Did Not Adequately Monitor Central Office Cost Centers, issued June 30, 2014

[35] Audit Report 2018-BO-0001, HUD's Office of Residential Care Facilities Did Not Always Have and Use Financial Information to Adequately Assess and Monitory Nursing Homes, issued September 17, 2018

[36] Management Alert - HUD Did Not Provide Acceptable Oversight of the Physical Condition of Residential Care Facilities, 2018-CF-0801, issued January 5, 2018

As a result, HUD could lose more than $32.1 million for four defaulted mortgages, and HUD owed more than $10 million in carrying costs to the respective lenders and lost more than $9.7 million in a bankruptcy sale.

As a result, HUD could lose more than $32.1 million for four defaulted mortgages, and HUD owed more than $10 million in carrying costs to the respective lenders and lost more than $9.7 million in a bankruptcy sale.

Additionally, HUD did not take action on ineligible expenses of more than $7.8 million, unsupported expenses of more than $8.9 million, and accrued expenses of more than $44.4 million.[35]

We also issued a management alert[36] to the Office of Healthcare Programs. We found that HUD failed to provide oversight of the physical condition of the residential care facilities in its portfolio to ensure that owners maintained the value of the properties for the life of the HUD-insured mortgage. We consistently saw the same types of deficiencies recurring throughout the facilities we visited. These deficiencies included significant roof problems that caused leaks and water damage, poor quality of repairs performed by unskilled labor, and facilities that were neglected and generally run down. The REAC inspections we reviewed with scores below 31 (out of 100) were performed an average of almost 3 years apart. In addition, the REAC scores did not always accurately reflect the overall physical condition of the facilities. These deficiencies are indications of a lack of physical condition monitoring by HUD and a lack of concern for the structural quality of the collateral by the owners and operators.

[35] Audit Report 2018-BO-0001, HUD's Office of Residential Care Facilities Did Not Always Have and Use Financial Information to Adequately Assess and Monitory Nursing Homes, issued September 17, 2018

[36] Management Alert - HUD Did Not Provide Acceptable Oversight of the Physical Condition of Residential Care Facilities, 2018-CF-0801, issued January 5, 2018

TOP MANAGEMENT CHALLENGE

4

Administering Disaster Recovery Assistance

- Codifying the CDBG-DR Program
- Ensuring That Expenditures Are Eligible and Supported
- Ensuring and Certifying That Grantees Are Following Federal Procurement Regulations
- Addressing Concerns That Citizens Encounter When Seeking Disaster Recovery Assistance
- Preventing Fraud in Disaster Recovery Assistance

HUD plays a substantial role in national disaster recovery initiatives. HUD often receives more disaster recovery funding than any other Federal entity. Congress has appropriated more than $84.6 billion in supplemental funding to HUD for disaster recovery since 2001. This amount includes $35.8 billion appropriated by Congress in supplemental appropriations to HUD in 2017 and 2018 for recovery from Hurricanes Harvey in Texas; Irma in Florida, Georgia, South Carolina, and the U.S. Virgin Islands; Maria in Puerto Rico and the Virgin Islands; and Nate in Mississippi. These disasters resulted in the loss of many human lives and massive property destruction.

HUD's primary program for disaster recovery assistance is Community Development Block Grant Disaster Recovery (CDBG-DR) program. Through the CDBG-DR program, HUD awards grants to States and units of local government for disaster recovery efforts. The nature of disaster recovery is inherently risky and susceptible to fraud, given the complexity and range of challenges experienced when recovering from disasters. Disaster recovery appropriation funds may take decades to spend, as their purpose is for long-term recovery, which includes rebuilding homes and communities. Over the years, HUD has gained more experience and made progress in assisting communities recovering from disasters, but it continues to face the following challenges in administering and overseeing these grants:

- codifying the CDBG-DR program,
- ensuring that expenditures are eligible and supported,
- ensuring and certifying that grantees are following Federal procurement regulations,
- addressing concerns that citizens encounter when seeking disaster recovery assistance, and
- preventing fraud in disaster recovery assistance.[37]

Codifying the CDBG-DR Program

When HUD initiated CDBG-DR assistance, it did not establish a formal CDBG-DR program in the Code of Federal Regulations. Instead, it has routinely issued multiple requirements and waivers for each disaster recovery supplemental appropriation in Federal Register notices, many of which have been repeated from disaster to disaster. In a recent report, HUD's Office of Block Grant Assistance (OBGA) stated that it had not codified the program because it believed it did not have the authority or had not determined its authority under relevant legislation.[38] It also believed a Presidential Executive order presented a barrier to codification, as it required CPD to identify two rules to eliminate before creating a new codified rule.
We believe OBGA has the authority under the Housing Act of 1974 and it should codify the program. OBGA's use of multiple Federal Register notices to operate the CDBG-DR program presented challenges to the grantees. For example, 59 grantees with 112 active CDBG-DR grants totaling more than $47.4 billion as of September 2017 had to follow requirements contained in 61 different Federal Register notices to manage the program. Codifying the CDBG-DR program would (1) ensure that a permanent framework is in place for future disasters, (2) reduce the volume of Federal Register notices, (3) standardize the rules for all grantees, and (4) ensure that grants are closed in a timely manner.[39]

[37] Helen M. Albert, Acting Inspector General: Testimony before the United States House of Representatives Committee on Financial Services Subcommittee on Oversight and Investigations Reforming the Community Development Block Grant-Disaster Recovery Program, November 1, 2017. Accessed at https://www.hudoig.gov/sites/default/files/Albert%20Testimony.pdf

[38] HUD did not believe it have the authority to codify CDBG-DR under the Robert T. Stafford Disaster Relief and Emergency Assistance Act, and it had not determined whether it had the authority under the Housing and Community Development Act of 1974 as amended.

[39] Audit Report 2018-FW-0002, HUD's Office of Block Grant Assistance Had Not Codified the Community Development Block Grant Disaster Recovery Program, issued July 23, 2018

Ensuring That Expenditures Are Eligible and Supported

Most CDBG-DR funding is available until spent, except for Hurricane Sandy funding, which had to be obligated by the end of fiscal year 2017. Of the $84.6 billion appropriated by Congress for various disasters since 2001, $65.67 billion (80.1 percent) had been obligated, and $38.98 billion (45 percent) had been disbursed as of September 30, 2018. While disbursing disaster recovery appropriations takes time, in some cases, many years have passed since the specific disaster occurred, and significant disaster funds remain unspent. HUD's challenge has been ensuring that grantees have the capacity to administer the funds and are using disbursed disaster funds for eligible and supported items.

We have dedicated substantial effort gaining an understanding to the challenges inherent in HUD's administration and oversight of disaster recovery funding and making recommendations to help HUD better serve populations in need as a result of disasters.

Since 2006, we have completed 120 audits and 6 evaluations relating to CDBG-DR funding for 9-11, Hurricanes Katrina, Sandy, and other eligible disasters. From this work alone, we identified more than $477.4 million in ineligible costs, $906.5 million in unsupported costs, and $5.5 billion in funds that could be put to better use. Additionally, we initiated 649 criminal investigations related to Hurricanes Katrina and Sandy. Lessons learned from administering funds for past disasters provide valuable insight in the response to disaster appropriations related to HUD's administration of the $35.8 billion provided in 2017 and 2018.

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Because HUD disaster relief assistance may fund many recovery activities, HUD helps communities and neighborhoods that otherwise might not recover due to limited resources. However, due to the diverse nature of the projects and the fact that some construction projects may take between 5 and 10 years to complete, oversight of these activities is made more difficult.

The extraordinarily destructive nature of the hurricanes that hit the United States in 2017 present unique challenges for all involved. HUD is in the position of handing over billions of dollars to grantees in Florida, Texas, Puerto Rico, and the U.S. Virgin Islands, which formerly handled, at most, tens of millions of dollars or may have not handled any disaster recovery funds. In addition, Puerto Rico essentially filed for bankruptcy relief, yet is scheduled to receive more than $18 billion in disaster recovery assistance from HUD. Therefore, we have concerns that these entities could have capacity issues in ensuring that the funds are spent appropriately and in a timely manner on disaster recovery activities. Capacity issues, therefore, pose great risks to the successful disbursement of funds in helping citizens and communities recover.

Two audit reports illustrate these challenges for HUD in administering disaster recovery programs. In our review of St. Tammany Parish's Disaster Recovery grant program,[40] we determined that Parish officials did not perform adequate cost analyses, maintain complete procurement files, fully implement a fraud prevention policy, or have an internal audit function. As a result of these systemic deficiencies, the Parish could not reasonably assure HUD that it would properly administer, adequately safeguard, and spend its remaining $8.67 million allocated for CDBG-DR funds in accordance with requirements and paid more than $400,000 in questioned costs. In our review of the State of Connecticut's management of its Sandy CDBG-DR grants,[41] we found that the State did not always comply with the requirements for its owner-occupied rehabilitation and reimbursement programs. Specific issues included improper procurements, inadequate environmental reviews, and an unsupported national objective.[42] As a result, more than $2.4 million in CDBG-DR funds was ineligible, and more than $13.5 million was unsupported.

Ensuring and Certifying That Grantees Are Following Federal Procurement Regulations

We also continue to have concerns about HUD's ability to ensure that disaster recovery grantees are following Federal procurement regulations. After HUD implemented actions to correct procurement issues identified in a 2013 audit report,[43] we completed a rollup report in September 2017,[44] summarizing new issues from 17 subsequent audit reports on disaster recovery grantees with questioned costs totaling nearly $391.7 million, related to procurement. The additional issues came about as a result of HUD's allowing States to certify

[40] Audit Report 2017-FW-1004, St. Tammany Parish, Mandeville, LA, Did Not Always Administer Its CDBG Disaster Recovery Grant in Accordance With HUD Requirements or as Certified, issued April 6, 2017

[41] Audit Report 2017-BO-1001, The State of Connecticut, Community Development Block Grant Disaster Recovery Assistance Funds, issued October 12, 2016

[42] National objectives are requirements of the CDBG program that grantees must meet, including benefiting low- and moderate-income persons, preventing or eliminating slums or blight, and meeting urgent needs.

[43] Audit Report 2013-FW-0001, Generally, HUD's Hurricane Disaster Recovery Program Assisted the Gulf Coast States' Recovery; However, Some Program improvements Are Needed, issued March 28, 2013

[44] Audit Report 2017-PH-0002, HUD Did Not Provide Sufficient Guidance and Oversight To Ensure That State Disaster Grantees Followed Proficient Procurement Processes, issued September 22, 2017

to requirements using their own standards rather than regulating each aspect of the program.[45] In two other recent audits, we found that HUD could not always provide accurate and supported certifications of State disaster recovery grantee procurement processes[46] or require State grantees to have procurement standards that aligned with each of the Federal procurement standards. As a result, products and services may not have been purchased competitively at fair and reasonable prices.[47]

Addressing Concerns That Citizens Encounter When Seeking Disaster Recovery Assistance

Individuals face challenges in attempting to receive assistance from HUD or any of the Federal and State agencies, nonprofits, or others offering assistance to those affected by a disaster, which often reduce the potential impact of available funding and resources. According to a recent OIG evaluation, citizens may face a circuitous path to receiving disaster recovery assistance, depending on how, when, and where they enter the response effort. Many nonprofit, private, and government organizations and agencies provide citizens – homeowners and businesses – a range of assistance and access in the disaster response and recovery process. The path is not linear, and citizens may start at various points within the disaster recovery assistance process. Citizens may experience lengthy delays from the initial application process to the closing of their cases due to inconsistent communication, coordination, and collaboration. Further, citizens may experience delays in funding, duplication of benefits, and other challenges after the process.[48]

Preventing Fraud in Disaster Recovery Assistance

Another challenge to HUD has been how to provide assistance in an expedited manner while also maintaining adequate safeguards to deter and detect fraud. Working with partners across the Federal Government and Inspector General community, we have identified common fraud schemes and leveraged data analytics in trying to prevent their recurrence. Disaster recovery fraud not only unlawfully enriches the individual submitting the fraudulent application for aid, but also limits the aid that is available to go to those with legitimate needs. Our investigations have identified unscrupulous contractors and individuals who preyed on a public eager to rebuild devastated areas, taking advantage of and further traumatizing the intended recipients. Many schemes involved homeowners who were affected by the disaster but were not eligible for the aid. The following are the most prevalent fraud scheme types identified by investigators

[45] HUD refers to this practice as "maximum feasible deference."
[46] Audit Report 2016-PH-0005, HUD Certifications of State Disaster Grantee Procurement Processes, issued September 29, 2016
[47] Audit Report 2017-PH-0002, HUD Did Not Provide Sufficient Guidance and Oversight To Ensure That State Disaster Grantees Followed Proficient Procurement Processes, issued September 22, 2017
[48] Evaluations Report 2017-OE-0002S, Navigating the Disaster Assistance Process, issued April 10, 2017

during previous disasters that have resulted in indictments, convictions, and recoveries:

- Homeowners fraudulently identifying a second home or an investment property as their primary residence
- Homeowners falsely purporting damage to properties that did not sustain damage during the disaster
- Landlords collecting dual payments from HUD- and FEMA-subsidized rental assistance programs
- Sale of a rental property before the receipt of the homeowner rental assistance grant
- Homeowners receiving grants for properties they did not own
- Restoration contractors defrauding the public by not completing contracted work
- Public corruption connected to State and local officials and contractors

TOP MANAGEMENT CHALLENGE

5

Modernizing Technology and the Management and Oversight of Information Technology

- IT Modernization
- IT Procurement
- Project Management

HUD has recently made efforts to modernize its information technology (IT) infrastructure and continues to attempt to address some of its outstanding IT and cybersecurity challenges. However, HUD's ability to effectively manage and oversee its key programs is greatly hindered due to HUD's struggle to resolve persistent IT management challenges. Further, IT system vulnerabilities that could lead to data breaches exist within the HUD IT environment, and HUD has demonstrated an inability to incorporate federally mandated requirements[49] and key practices[50] into effective operational management.

On August 14, 2018, Secretary Carson announced that the position of Chief Information Officer (CIO) would report directly to him. He also directed that the IT functions dispersed across the agency be consolidated into the Office of the Chief Information Officer (OCIO), rather than being held separately by each program office. Further, after this reorganization, the CIO will establish knowledge and skills standards for all agency IT personnel and identify positions in which critical hiring needs exist or there is a shortage of highly qualified candidates and use special hiring authorities to address these staffing risks. For these changes to be effective, HUD must continue to pursue its planned changes and their implementation.

[49] Federal mandated requirements include OMB, U.S. Department of Homeland Security, and Executive order directives and memorandums requiring implementation of cybersecurity program enhancements.

[50] Key practices are strategies and recommendations for improving cybersecurity programs that often come from the National Institute of Standards and Technology, Federal agencies, and vendors.

HUD struggles to remain compliant with Federal requirements and to address its IT challenges. Since 2007, we have issued a number of reports related to HUD IT issues with more than 483 recommendations to help HUD address these challenges. Of these recommendations, 197 remain open or unresolved, with another 25 open recommendations from GAO. HUD OIG and GAO have repeatedly made multiple recommendations because the original recommendations were closed without proper remediation or the issues persisted without being addressed.

IT Modernization

HUD continues to manage most of its operations with legacy systems implemented between 1974 and 1995. Many of HUD's legacy systems are outdated and cannot be adapted to handle the increasingly complex tasks required for HUD's mission in the 21st century. HUD's aging technology and the reliance on applications that are no longer supported by vendors places HUD's IT systems at an increasing risk of failure and exploitation because critical updates to fix vulnerabilities are often no longer available. This situation increases the risk of possible HUD data breaches. For example, we have reported on weaknesses in internal information system data processing controls and security. The effect of these weaknesses is that the completeness, accuracy, and security of HUD information is at risk of unauthorized access and modification. We are specifically concerned about the current state of FHA's IT systems and the lack of systems capabilities and automation to respond to changes in business processes and the IT operating environment.

As another example of the detrimental effect of outdated systems, we reported in 2017[51] that HUD did not report complete and accurate data to the public as required by the Digital Accountability and Transparency Act of 2014 (DATA Act).[52] The DATA Act expanded prior Federal transparency regulations by disclosing Federal agency expenditures and linking Federal contract, loan, and grant spending information to enable taxpayers and policy makers to track Federal spending. HUD did not follow required data standards meant to ensure the reporting of reliable, consistent Federal spending data for public use because HUD's existing systems did not have the capabilities of implementing these standards. As a result, HUD underreported $17.9 billion in incurred obligations, $16.9 billion in outlays, and $4.2 billion in apportionments. Therefore, stakeholders and end users accessing HUD data provided to the public in response to DATA Act requirements could not obtain a complete and accurate representation of HUD's financial position and performance.

Additionally, maintenance of all HUD legacy systems is very costly due to the specialized skills and support needed to maintain and operate them. HUD's fragmented approach to adopting technology has led to multiple platforms and services competing for resources.

[51] Audit Report 2018-FO-0001, DATA Act Compliance Audit of the U.S. Department of Housing and Urban Development, issued November 3, 2017
[52] Digital Accountability and Transparency Act of 2014, Public Law 113-101, May 9, 2014, https://www.congress.gov/113/plaws/publ101/PLAW-113publ101.pdf

Over the past 5 years, HUD spent between 70 and 95 percent of its, on average, $280 million annual IT budget on operations and maintenance. With each successive year since 2012, HUD has spent less money on development, modernization, and enhancement efforts and, instead, spent more money on operating and maintaining legacy systems.

Over the past 5 years, HUD spent between 70 and 95 percent of its, on average, $280 million annual IT budget on operations and maintenance. With each successive year since 2012, HUD has spent less money on development, modernization, and enhancement efforts and, instead, spent more money on operating and maintaining legacy systems.

From 1991 to 2016, HUD spent approximately $370 million on three IT modernization projects. None of the three was fully completed. In 2016, GAO concluded that turnover among senior leadership, shifting priorities, and resource constraints contributed to HUD's difficulties in implementing needed changes. The lack of proper project management implementation only adds to the challenge of developing and implementing modernization efforts on time and on budget. HUD OCIO was recently awarded an IT modernization grant of $20 million to transition applications from the legacy Unisys mainframe platform to the cloud. Although HUD was recognized for having a detailed modernization proposal for this project, proper oversight will be needed to ensure that information security is built into this and all projects and that tax payers' money is not wasted.

IT Procurement

Contracting officer's representative duties are often performed as additional duties rather than full-time roles. According to the Office of the Chief Procurement Officer, in fiscal year 2017, fewer than five people were adequately trained and possessed the expertise to manage IT projects and contracts. While HUD has adopted many acquisition procedures, it has not fully implemented or applied these procedures, leaving gaps in its IT acquisition framework. GAO reported that HUD lacked well-documented and fully developed selection processes to ensure consistent application of selection criteria used for applicants for contracts.[53] In addition, HUD lacked robust processes for contractor oversight and evaluating contractor performance against expected outcomes to ensure that its contractors met their obligations.

[53] GAO Report, GAO-16-497, Actions Needed to Incorporate Key Practices into Management Functions and Program Oversight, publicly released August 19, 2016

Project Management

HUD program offices generally operate within silos, and the agency has taken a fragmented approach to adopting and implementing technology. HUD recently began an initiative to consolidate IT efforts under OCIO; however, this consolidation has not yet been realized and will take dedicated efforts to achieve. HUD's current decentralized IT system and application management model has resulted in autonomous applications and duplication of services operating on multiple platforms across program offices. In 2016, we found that three web applications were operating outside HUD's IT environment, showing that OCIO did not have an accurate inventory or knowledge of its web application environment. In 2018, we found an additional web application that was operating outside HUD's IT environment without the knowledge of OCIO. HUD program offices had generally used operational funds to develop IT systems and applications without oversight from OCIO. This shows a lack of progress in IT system implementation and a lack of a consolidated project management capability. As a result, HUD has multiple customized applications to manage its grant programs with no plan to standardize and modernize the grants process and capabilities.

In addition, financial management and IT governance failures led management to disregard or underestimate significant risks. HUD's latest major project implementation, a transition of the financial system to a Federal shared service provider (FSSP) called New Core,[54] failed to meet its stated objectives due to funding shortfalls and constraints, rushed system design and development activities, schedule management deficiencies, and risk management weaknesses. Three years after implementation, HUD is still resolving data conversion issues. Originally, the New Core Project included plans to transition some of HUD's legacy financial systems to new platforms or shared services; however, HUD halted the project in April 2016. No substantial plans exist to modernize the remainder of HUD's financial management systems.[55]

It is imperative that HUD not repeat the mistakes of the past when implementing new projects, especially critical projects such as the transition to the cloud.

[54] In the fall of 2012, the New Core Project was created to move HUD to a new core financial system that would be maintained by a shared service provider, the U.S. Department of the Treasury's Bureau of Fiscal Services.

[55] Audit Report Number 2017-DP-0001, HUD's Transition to a Federal Shared Service Provider Failed To Meet Expectations, issued February 01, 2017; and Audit Report Number 2015-DP-0006, New Core: Release 3 Project Management, issued June 12, 2015.

TOP MANAGEMENT CHALLENGE

6

Instituting Sound Financial Management Governance, Internal Controls, and Systems

- HUD's Financial Management Leadership and Governance
- HUD's Internal Control Framework and Financial Management Maturity
- HUD's Financial Management Systems Weaknesses

Over the last several years, HUD's financial management has been operating at "inadequate" or "basic" levels of maturity[56] due to (1) a weak governance structure, including the lack of a confirmed CFO for a number of years; (2) ineffective internal controls; and (3) an antiquated financial management system consisting of legacy systems and manual processes that have precluded HUD from producing reliable and timely financial reports. As a result, HUD has been unable to achieve an unmodified audit opinion[57] on its financial statements for the last 6 years and has received a disclaimer of opinion for 5 of those years. One of HUDs component entities, Ginnie Mae, has also been unable to achieve an unmodified opinion and has received a disclaimer of opinion for the last 5 years due to poor governance and a weak internal control framework. Ginnie Mae has been unable to appropriately account for and support several financial statement line items in accordance with generally accepted accounting principles, including its nonpooled loan asset portfolio, which totaled as much as $6 billion at one point. HUD's unstable financial management environment weakens public confidence in the government programs HUD administers and prevents HUD's stakeholders from being able to rely upon the Department's financial position.

[56] U.S. Department of the Treasury, Bureau of the Fiscal Service, Federal Financial Management Maturity Model. The Maturity Model is a business tool that helps a CFO self-assess his or her organization's level of financial management discipline, effectiveness, and efficiency. A copy of the model can be found at https://www.fiscal.treasury.gov/fsservices/gov/fit/MaturityModelHandout2017-05-10.pdf.

[57] Codification of Statements on Auditing Standards, AU-C Section 700.11, The opinion expressed by the auditor when the auditor concludes that the financial statements are presented fairly, in all material respects, in accordance with the applicable financial reporting framework.

HUD's Financial Management Leadership and Governance

HUD has had a consistent problem with maintaining strong leadership within OCFO. The CFO position was vacant for 6 of the last 7 years, leaving responsibility for financial management of the agency with the Deputy CFO, who has frequently been in an acting capacity. Similarly, as of September 2018, a number of senior-level positions in Ginnie Mae's OCFO have remained vacant for an extended period. As a result, in 2018, as in previous years, Ginnie Mae relied heavily on contractors for accounting expertise and accepted their advice without being fully evaluated by objective, independent, and well-informed Ginnie Mae executives.

The lack of strong, consistent leadership over an extended period has allowed HUD's internal control environment and framework to weaken, which let deficiencies occur without being detected or prevented and precluded HUD from resolving financial integrity issues in a timely manner.

Programmatic decisions that affected HUD's financial reporting were made without consultation from OCFO, negatively impacting HUD's financial reporting by causing material misstatements or preventing auditability of significant balances.

Programmatic decisions that affected HUD's financial reporting were made without consultation from OCFO, negatively impacting HUD's financial reporting by causing material misstatements or preventing auditability of significant balances.

Many of the material weaknesses, significant deficiencies, and instances of noncompliance with laws and regulations cited in HUD's consolidated financial statement audit reports have existed for several years and may have been resolved more promptly if HUD's leadership had taken immediate action on the recommendations and demonstrated a clear commitment to address the deficiencies. HUD has more than 300 open audit recommendations stemming from the annual consolidated financial statement and Federal Information System Controls Audit Manual audits, many of which are overdue for action.

In January 2018, HUD's CFO was confirmed by the U.S. Senate. Since that time, he has outlined several strategic objectives geared toward bringing HUD's financial management back into a compliant state. Those objectives include development of a comprehensive OCFO transformation strategy, to include (1) improving governance and communication and building relationships across the agency, (2) improving internal controls by evaluating audit findings and developing overall remediation plans and execution, and (3) working with HUD's CIO on an IT strategy to address OCFO data needs. While the objectives and strategy are dynamic and can broadly affect the entire agency, it will require significant financial and human resources commitment from the HUD Secretary, Congress, and other stakeholders and will take multiple years before they can be fully implemented.

HUD's Internal Control Framework and Financial Management Maturity

HUD's processes and financial management integrity are still in the "basic" and "inadequate" stages of the U.S. Treasury's Financial Management Maturity Assessment model due to its disclaimer of opinion, multiple material weaknesses, and heavy reliance on manual processes. HUD's most recent OMB Circular A-123 reviews have cited 19 of 50 financial reporting and complementary internal controls as "failing" or not properly designed.

When HUD transitioned to an FSSP in 2015, OCFO did not ensure that changes in business processes and responsibilities were appropriately documented in policies and procedures. As a result, HUD continues to address problems that occurred as a result of poor implementation planning for its transition to the FSSP.

Ginnie Mae has been working to develop and finalize accounting policies for the last 5 years, which is a first step toward bringing its nonpooled loan asset portfolio into an auditable state. These accounting policies and procedures are still being finalized, and controls over these processes have not been developed, implemented, and executed in an effective and efficient manner.

The weakened internal control framework has allowed errors to occur in HUD's financial reporting, requiring HUD to restate its financial statements for the last 5 consecutive years. In addition, HUD is noncompliant with the DATA Act,[58] the Improper Payments and Elimination and Recovery Act, the Debt Collection Improvement Act, the Federal Financial Management Improvement Act, and the Federal Managers Financial Integrity Act.[59]

During the current year, HUD has been working toward drafting policies, procedures, and other artifacts as part of a broader transformation strategy to improve overall controls across HUD. Improvements to significant financial reporting and accounting processes have been designed and implemented during the last half of the fiscal year. While significant work has been completed and is continuing to address material internal control deficiencies, time is needed to allow for the new processes and controls to mature to a level that can ensure the production of timely and reliable financial reporting, which can be sustained during times of environmental and leadership changes.

[58] Audit Report 2018-FO-0001, DATA Act Compliance Audit of the U.S. Department of Housing and Urban Development, issued November 3, 2017.

[59] Audit Report 2018-FO-0004, Additional Details To Supplement Our Fiscal Years 2017 and 2016 (Restated) U.S. Department of Housing and Urban Development Financial Statement Audit, issued November 15, 2017.

HUD's Financial Management Systems Weaknesses

Weaknesses with HUD's financial management systems have been a longstanding, pervasive issue significantly impacting HUD's ability to produce timely and reliable financial reports and comply with significant laws and regulations. As discussed in the technology and data management challenge, HUD continues to operate with many legacy systems and maintains an antiquated infrastructure on which most of the HUD and FHA financial applications reside.

In an attempt to modernize its financial management systems, in October 2015, HUD transitioned some of its core accounting functions to an FSSP as part of the New Core project. HUD encountered significant challenges with the transition, which impaired the efficiency and effectiveness of HUD's internal controls and operations instead of improving them. For example, inaccurate financial data were included in HUD's general ledger, and data conversion errors occurred, impacting millions of dollars in transactions requiring the processing of a significant number of manual, complex journal entries to perform data cleanup. Additionally, significant differences between the general ledger and subsidiary systems remain unresolved 3 years after implementation. The overall implementation to a shared service provided increased the number of processes required to record financial transactions instead of decreasing them.

Several significant financial business processes continue to be either manual or nonexistent and result in unreliable and untimely financial reporting and poor financial management oversight. For example, Ginnie Mae continues to manually produce stand¬alone reports to manage the accounting and processing of activities for its more than $3 billion nonpooled loan assets portfolio. Ginnie Mae and HUD have been working on implementing a financial management system to address this weakness for more than 3 years to bring the nonpooled assets into an auditable state. HUD also continues to perform cash management functions and management of HUD's non-FHA loan guarantee programs using manual Excel spreadsheets or Access databases, preventing OCFO from recognizing all accounting events in its financial records accurately and in a timely manner. Additionally, HUD lacks an adequate cost accounting and property management system to accurately report on the cost of programs and property, plant, and equipment balances. Lastly, the lack of an IT system to collect SF-425 data, such as Federal cash on hand and total disbursements, has prevented OCFO and HUD from obtaining necessary financial information to ensure accurate financial reporting and gaining insight into the financial status of each active grant.

HUD continues to face the challenges associated with maintaining its legacy systems and ensuring that they can support the current housing industry and volume of activity that HUD requires to execute its mission.

Management's Response to the OIG Report on Management and Performance Challenges

HUD is committed to fulfilling its mission to create strong, sustainable, inclusive communities and quality affordable homes for Americans. The work of HUD's OIG helps us to ensure that our programs and employees work to successfully accomplish these goals efficiently and with integrity.

As we continue to shape our relationship with the OIG, we remain steadfast in our commitment to address necessary changes required within HUD and any challenges faced by the communities we support. Specifically, we are focused on improving HUD's infrastructure related to human capital practices, critical internal processes, and our information technologies to further enhance the Secretary's strategic priorities of protecting taxpayer funds and streamlining operations.

These improvements will continue to transform HUD into a more efficient and effective agency and help to ensure the progress made to date provides measurable results. Our organization, in its entirety, is resolute in its charge to collaboratively work with the OIG. We will continue to identify and implement solutions, consistent with our available resources, that will remediate weaknesses, which prevent HUD from obtaining a clean audit opinion.

We are working with the OIG to identify weaknesses that have the largest impact on the disclaimer condition and are focusing our remediation efforts on those areas that we believe will demonstrate management's commitment to sound financial reporting and a strong system of internal controls. HUD agrees that it cannot continue to operate under the shadow of a "Disclaimer of Opinion" and have prioritized the business processes in need of substantive improvement, to further the goal of resolving its longstanding material weaknesses.

Additionally, we will continue to address the challenges in administering programs directed towards victims of natural disasters. The impact of hurricanes and wildfires that continue to occur, will be felt for years to come. We have a fiduciary responsibility to ensure that the funds that the Congress appropriates for HUD to assist the victims of these natural disasters are managed efficiently and effectively so that we can maximize the benefit to those in need.

We appreciate the continued commitment on the part of OIG to provide us with recommendations that will strengthen operations and resolve management challenges.

Summary of Financial Statement Audit and Management Assurances

For FY 2018, five material weaknesses were identified by the OIG in HUD's Consolidated Financial Statement Audit Report. Table 1 presents a summary of the results of the independent audit of HUD's consolidated financial statements. Table 2 is a summary of HUD's Federal Managers Financial Integrity Act of 1982 (FMFIA) management assurances.

Table 1: Summary Financial Statement Audit

Summary of Financial Statement Audit					
Audit Opinion	**Disclaimer**				
Restatement	**Yes**				
Material Weaknesses	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Ending Balance**
1. Weak Internal Controls Over Financial Reporting (HUD, Ginnie Mae, FHA)	1	0	0	0	1
2. HUD Accounting Did Not Always Comply with GAAP	1	0	0	0	1
3. Significant Reconciliations Were Not Completed in a Timely Manner	1	0	1	0	0
4. Non-GAAP Accounting for CPD Grants (First-in, First-out) FIFO method)	1	0	0	1	0
5. Departmental Financial Management Systems Weaknesses	1	0	0	0	1
6. Departmental Financial Management Governance (Ginnie Mae)	1	0	1	0	0
7. Non-Pooled Loans and Loan Loss Allowance Not Supportable (Ginnie Mae)	1	0	0	0	1
8. Allowance for Loan Loss Account Balances Were Unreliable (Ginnie Mae)	1	0	0	1	0
9. Weaknesses in FHA Modeling Processes	1	0	0	0	1
Total Material Weaknesses	**9**	**0**	**2**	**2**	**5**

Table 2: Summary of Management Assurances

Effectiveness of Internal Control over Financial Reporting (FMFIA § 2)						
Statement of Assurance	**No Assurance**					
Material Weaknesses	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Reassessed**	**Ending Balance**
1. Weak Internal Controls Over Financial Reporting (HUD, Ginnie Mae, FHA)	1	0	0	0	0	1
2. HUD Accounting Did Not Always Comply with GAAP	1	0	0	0	0	1
3. Significant Reconciliations Were Not Completed in a Timely Manner	1	0	1	0	0	0
4. Non-GAAP Accounting for CPD Grants (FIFO method)	1	0	0	1	0	0
5. Departmental Financial Management Systems Weaknesses	1	0	0	0	0	1
6. Departmental Financial Management Governance (Ginnie Mae)	1	0	1	0	0	0
7. Non-Pooled Loans and Loan Loss Allowance Not Supportable (Ginnie Mae)	1	0	0	0	0	1
8. Allowance for Loan Loss Account Balances Were Unreliable (Ginnie Mae)	1	0	0	1	0	0
9. Weaknesses in FHA Modeling Processes	1	0	0	0	0	1
Total Material Weaknesses	**9**	**0**	**2**	**2**	**0**	**5**
Effectiveness of Internal Control over Operations (FMFIA § 2)						
Statement of Assurance	**No Assurance**					
Material Weaknesses	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Reassessed**	**Ending Balance**
Total Material Weaknesses	**0**	**0**	**0**	**0**	**0**	**0**
Compliance with Federal Financial Management System Requirements (FMFIA § 4)						
Statement of Assurance	**Federal Systems do not comply to financial management systems requirements**					
Non-Compliance	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Reassessed**	**Ending Balance**
1. FAMES	0	1	0	0	0	1
2. HIAMS	1	0	1	0	0	0
3. IDIS	1	0	0	0	0	1
4. DRGR	1	0	0	0	0	1
5. NCIS	1	0	0	0	0	1
6. SMART	1	0	0	0	0	1
7. SAMS	1	0	0	0	0	1
8. TRACS	1	0	0	0	0	1
9. GFAS	1	0	0	0	0	1
Total non-compliances	**8**	**1**	**1**	**0**	**0**	**8**

Compliance with Section 803(a) of Federal Financial Management Improvement Act (FMFIA)		
	Agency	**Auditor**
1. Federal Financial Management System Requirements	Lack of compliance noted	Lack of compliance noted
2. Applicable Federal Accounting Standards	Lack of compliance noted	Lack of compliance noted
3. USSGL at Transaction Level	Lack of compliance noted	Lack of compliance noted

OCFO Improvements to Date to Protect Taxpayer Funds

OCFO has made substantial progress towards several of its strategic objectives during FY 2018, as illustrated in the tables below. However, much remains to be accomplished and we will continue to strategically invest in our people, processes, and technologies in order to advance our goals of protecting taxpayer funds while maintaining efficient and effective operations.

Finance Transformation Plan Accomplishments

- Developed a comprehensive Financial Transformation Plan.
- Communicated HUD's Financial Transformation Plan to Congress and OMB to build engagement, acceptance and trying to secure resources to implement the plan.
- Partnered with the GSA's Center of Excellence initiative to modernize HUD's information technology systems and operating procedures.
- Developed an official OCFO Mission Statement.
- Reinstated the Financial Management Council.

Improved Governance - Agency-wide Integrity Task Force Accomplishments

- Formed the Agency-wide Integrity Task Force (AWITF) designed to improve areas of operational deficiencies and reduce risk.
- Under the oversight of the AWITF, formed seven Project Management Organization teams designed to improve the following identified areas of deficiency: Finance Transformation; IT modernization; Grant Modernization; HR process; Acquisition Process; Enterprise Risk Management; and Regulatory Reform.
- Implemented a common set of dashboards and project plans to effectively track and monitor results on the PMO initiatives
- Improved processes to align the Annual Performance Plan and the President's Management Agenda.
- Formed the Mortgage Risk Review Committee to monitor risk identification and related processes for FHA and Ginnie Mae.

- Created an Index of fraud schemes to increase prevention and early detection.
- Analyzed travel credit card and Concur travel transactions, which identified analogies and anomalies and resulted in the first travel fraud risk profile.
- Established a HUD-wide Risk Profile including risk dashboards of 16 program offices and comparative risk mapping and a repeatable process to update the Risk Profile.
- Implemented monthly close process, established documented procedures for financial reporting process and strengthened validation controls.
- Implemented process to strengthen management representation controls.
- Drafted, refined, and implemented 25 budgetary procedures to improve the budgetary processes.
- Improved processes resulting in on-time submission of congressional justification and operating plan to Congress to support to the Secretary's appropriation hearings.
- Built relationships and improved credibility with Congress and OMB.
- Held bi-weekly meetings with the OIG for over-arching issues and concerns driving audit findings and MW.
- Held quarterly OCFO All Hands Meeting to engage employees.
- Established better communication protocols with OCFO and HUD programs.
- Established and published CFO newsletter monthly.
- Designed and held the first annual OCFO training seminar for finance personnel within HUD's programs.
- Modified Department audit coordination process which improved response timeliness by more than 14%.
- Closed 650 program audit recommendations out of 2,543.

Fiscal Responsibility Accomplishments

- Inventoried all open audit findings & recommendations resulting in heat maps and prioritization of issues.
- Developed material weaknesses corrective action strategies and project plans for selected material weaknesses.

- Closed 155 OIG recommendations, a 42% increase over FY 2017.
- Established a new policy and process to analyze and resolve $53 billion unreconciled differences to below $50 million.
- OCFO implemented processes that strengthened oversight and review of Ginnie Mae and FHA.
- OCFO provided oversight to ensure Ginnie Mae completed the processes and procedures related to the accounting of its non-pooled assets, the source of a disclaimer by the OIG to the audit opinion. Ginnie Mae is prepared to have OIG audit non-pooled assets in 2019.
- Initiated and hold weekly audit remediation status meetings.
- Developed and implemented a process to improve the delivery of requested Congressional Reports, decreasing delinquent Congressional reports by 97%, submitting 117 reports.
- Implemented a financial policy framework, which resulted in the identification, issuance, or update of 150 policy and procedural statements.
- Improved the DATA Act Standards from 65% to nearly 100% compliant in FY 2018.
- Designed and implemented automated obligations for credit card transactions, reducing administrative burden by 90%.
- Increased internal control testing by 200%, testing over 100 key controls, improved passing rate by 13%.
- For the first time, we completed all required risk assessments for Getting Payments Right.
- Conducted first ever review of Ginnie Mae contract payments, which revealed controls matters not previously identified.
- Implemented paperless allotment process between HUD and OMB, shortening the allotment cycle.
- Related to HUD's Financial Management material weakness, we implemented 31 of 35 OIG recommendations for the New Core Project.
- Related to HUD's computing environment control deficiency, we implemented all 6 OIG recommendations.
- Related to HUD's material weaknesses of Internal Controls over Financial Reporting and Untimely Significant Reconciliations, we remediated 15 of 19 OIG recommendations related to accounts.
- Related to HUD's Financial Management material weakness for non-GAAP accounting resolved 9 of 28 recommendations.
- Analyzed over 99,000 open obligations, which resulted in a new methodology for reviewing open obligations.

Oversight of Community Block Grant – Disaster Recovery Accomplishments

- Established an OCFO governance framework to oversee CDBG-DR Funds for Puerto Rico and U.S.VI.
- Developed a workplan to review certain internal controls related to the flow-of-funds.
- Developed an action plan for State access to Treasury's Do Not Pay (DNP) portal.

IT and Grant Modernization Accomplishments

- Developed and implement a process that improved reporting of closed grants for the GONE Act, reducing open grants from 186,306 to under 500.
- Awarded $20 million loan from OMB's Technology Modernization Fund towards our IT modernization efforts.
- Established new policies on NOFA timeliness and enterprise grants monitoring, which aligns HUD with existing federal benchmarks for the NOFA process and improving controls.
- Established policies and procedure to address effective grant close-outs.
- Implemented policies establishing timeliness goals and standardizes grantee oversight.
- Completed the analysis of four grant programs to build requirements for award systems.
- Improved and streamlined financial reporting capabilities by implementing ARC's One Stream Reporting tool and Oracle Business Intelligence.
- Maintained the integrity of OCFO systems through security training, certifications, user and access control and NCIS and Line of Credit Control System (LOCCS) modifications to improve systems security.
- Successfully closed 5 OIG recommendations related to DATA Act and utilized cross program collaboration to improve compliance with the Act.

Analysis of Systems, Controls and Legal Compliance

While the Department is expressing no assurance that internal controls over operations and financial reporting are effective, we are working diligently to modernize our systems, organization, and infrastructure to address significant issues that cause most of the findings. As is common with most major financial system transitions, HUD is still working to fully leverage the benefits of our new Federal Shared Service Provider (FSSP), Treasury's ARC. While the transition to shared services has been difficult, complicated even further by the mix of shared services and aged legacy systems, it did introduce additional financial discipline and uncovered historical issues. HUD is prioritizing, collaboratively researching, and working with multiple stakeholders to address these issues.

Material Weaknesses Summary

Internal Control over Financial Reporting

In FY 2018, HUD continued to strengthen its partnership with ARC, and to work on process improvements that strengthen our operating environment and controls. Improvements were made in the financial reporting area, where HUD transitioned to using the ARC OneStream Reporting Tool for preparation of financial statements and footnotes. OneStream incorporated many of the internal controls that were put in place in FY 2017, provided additional enhancements to increase efficiency and consistency of financial data for the AFR, and better positioned HUD to meet statutory deadlines.

During FY 2018, the Department took additional steps to strengthen its fiscal responsibilities and controls by prioritizing open audit recommendations, developing material weakness corrective action strategies, and monitoring their execution. This includes ongoing efforts to document and/or update policies and procedures across several areas.

Through the improved financial management governance structure known as the AWITF, the Department will provide further support to Ginnie Mae in its efforts to transform its financial management organization. This includes improvements in its policies, procedures, governance structure, technology, and levels of staffing to aid in the resolution of the identified material weaknesses.

While the FHA has made considerable improvements in its internal controls, further refinements will be implemented to strengthen modeling processes and controls.

Accounting Standards

HUD has implemented a solution on a going-forward basis, whereby disbursement transactions are aligned to specific obligations on grants issued beginning in FY 2015. For the FY 2014 grants and prior, HUD does not have the historical records to be able to retroactively apply the corrections, or to estimate misaligned values (if any) in the financial statement. For this reason, the financial statements will continue to contain the impacts of historical FIFO for another two to four years, until FY 2014 and prior grants are substantially closed out.

Utilizing the risk-based integrated audit remediation approach developed in FY 2017 and refined in FY 2018, HUD is systematically establishing internal controls and methodologies along with updating policies and procedures to resolve findings, properly account for, and adequately support its budgetary and proprietary accounts. For example, HUD is taking steps to properly account for its property, plant and equipment by updating its policies and procedures, strengthening internal controls, and remediating historical balances for each fixed asset category. Additionally, in FY 2018 HUD expanded its validation method for CPD accrued grant liabilities estimates and deployed a consistent and timely estimation methodology for prepayment balance. Where possible and feasible, HUD plans to enhance manual processes with automated solutions. These enhancements will help strengthen the effectiveness of key processes and facilitate timely and accurate financial reporting.

Regarding HUD's accounting treatment of funds disbursed to IHBG grantees for investment as authorized by section 204(b) of the Native American Housing Assistance and Self Determination Act of 1996, accounting analyses done by both the OCFO and the OIG were reviewed by the acting Deputy Secretary. Consistent with the audit resolution process articulated in the Department's Audit Management System Handbook, on July 11, 2017, the acting Deputy Secretary provided a final decision with which OIG disagreed. The acting Deputy Secretary's decision concluded that since investment is an authorized program purpose, HUD's accounting treatment was correct. The OCFO is further analyzing the requirements in the IHBG legislation and the supporting processes to determine what additional steps are necessary to successfully resolve and close out this material weakness.

Financial Information Systems

HUD's financial system weaknesses remain due to the aggregate impact of numerous deficiencies and limitations of our aged systems. While HUD took steps to modernize its financial management system through the transition of key financial management functions to a FSSP in FY 2016, the Department encountered challenges post-implementation that had not been fully resolved as of September 30, 2018. Over the next year, HUD plans to hold discussions with both internal stakeholders and its FSSP to develop synergies and common practices to improve communication to HUD stakeholders regarding the role its FSSP plays within various process.

The Department plans to integrate its FSSP into its existing business practices using industry/commercial best practices which will help to mitigate issues with HUD's inability to modernize its other legacy financial systems and the lack of an integrated financial management system. In addition, the Department's systems are being evaluated through an interagency agreement with the GSA's Center of Excellence to develop viable solutions. These will aid program offices by reducing their reliance on manual processes and outdated systems to meet financial management needs. This is a high priority for HUD as these system issues and limitations hampered HUD's ability to produce reliable and useful financial information in a timely manner.

Financial Management Systems, Framework, and System Strategies

Despite operating both legacy and modernized financial systems with limited funding, HUD OCFO made significant progress to close out previously issued New Core Project findings and recommendations. This effort resulted in closing 31 out of 35 OIG New Core Project recommendations. The following are a few of the improvements that OCFO made during FY 2018 to improve financial systems functionality and internal controls:

- Implemented improvements to the subledger reconciliation process that allows the Department to provide supporting subledger details to ARC in a timely manner. OCFO published *HUD Accounting Policies Handbook 1980.1, Chapter 8: Subledger Reconciliation,* which outlines the HUD/ARC subledger reconciliation procedures.
- Established a process for identifying and resolving New Core Interface Solution (NCIS) data differences.
- Obtained the beginning balance file earlier in the year for use with the NCIS reconciliation tool.
- Implemented a data validation process to ensure the accuracy of the NCIS crosswalk table entries.
- Collaborated with OCIO to ensure that NCIS is officially designated as a mission critical system, listed in the Inventory of Automated Systems (IAS) as mission critical, and placed on the mission-critical disaster platform.
- Developed a process/mechanism to operate in the absence of a Secure File Transfer Protocol (SFTP) server at the fail-over data center.

- Worked with the NCIS support contractor to establish audit logs that track user activity for the security administration functions, and user activity for privileged users within the production environment.
- Established a periodic monitoring process of Audit Logs in accordance with HUD policy.
- Prohibited NCIS developer user ID sharing and created an additional user ID for system administration in the developer environment.
- Verified that the NCIS trial balance and status of funds reconciliation reports functioned properly, and resolved the differences.
- Developed metrics and collected data on NCIS transaction processing for monitoring system performance.

In addition to closing out audit findings and recommendations, OCFO has continued to work with ARC to migrate and implement new technologies to provide better services to HUD OCFO's internal and external customers.

- **ARC Oracle Business Intelligence Enterprise Edition (OBIEE) System:** On July 2, 2018, OCFO worked with Treasury's ARC to migrate to a new reporting tool called OBIEE. The OBIEE system replaced Discoverer and is a web-based financial reporting tool used to extract and present financial information from Oracle Applications in worksheet form. OCFO, in collaboration with ARC (HUD's shared service provider for financial operations), transitioned approximately 600 users to the new system and assigned them new user roles. OCFO in cooperation with ARC converted the Discoverer reports to the new OBIEE reporting tool. The OBIEE software has a different look and feel than Discoverer and provides greater capabilities. While the Discoverer product will still be accessible until May 2019, users have started using the new OBIEE reports.
- **ARC OneStream Reporting Tool:** In early FY 2018, OCFO worked with ARC to implement a new financial reporting system, OneStream. The OneStream application will streamline the financial reporting process and resolve a HUD OIG Audit Recommendation. OneStream is now being used to generate USSGL Tie-Point Reconciliations, SF-133 Report on Budget Execution and Budgetary Resources, along with other reconciliation reports and the generation of HUD's consolidated financial statements and notes. ARC plans on providing future OneStream functionality to include subledger reconciliation and automated integration with the core accounting systems general ledger module. OneStream is currently used by OCFO Accounting, FHA, Ginnie Mae, and HUD OIG staff.

HUD OCFO also made improvements on its' existing systems and worked toward decommissioning legacy systems:

- **LOCCS:** To minimize the risk of a security breach and protect the Personally Identifiable Information of all HUD staff and grantees, OCFO staff worked with the LOCCS support contractor to remove user Social Security Numbers (SSN). The users' SSN had been part of the authentication process in LOCCS. LOCCS now authenticates grantee users through Web Access Secure System (WASS). The SSN for HUD users was eliminated through the implementation of HUD's Single Sign-On.
- **Program Accounting Systems (PAS):** HUD OCFO is currently working on migrating PAS functionality into the LOCCS in order to lower operation and maintenance costs by decommissioning PAS.
- **HUD Consolidated Financial Statement System (HCFSS) and Total Estimated and Allocation Mechanism (TEAM) Systems Decommissioning:** To lower operations and maintenance costs, HUD OCFO is in the process of decommissioning HCFSS and TEAM systems in coordination with OCIO.

For FY 2019, OCFO plans to begin to modernize its IT systems through the OMB Technology Modernization Fund and GSA/HUD Centers of Excellence initiatives—to migrate LOCCS and PAS off the Unisys mainframe to the cloud, and to examine its technology infrastructure and operating procedures to identify needed upgrades and opportunities for improvement.

HUD performed an assessment of the organization's FFMIA compliance with Section 803(a): Federal financial management systems requirements, applicable Federal accounting standards promulgated by FASAB, and the USSGL at the transaction level. Financial management systems include both financial and financially related (or mixed) systems. As of September 30, 2018, HUD had determined that 25 out of 33 of its financial management systems are substantially compliant with Section 803(a) of FFMIA. These systems comply with Federal financial management systems requirements, applicable Federal accounting standards, and the USSGL at the transaction level. Overall, however, per OIG, HUD's financial management systems did not comply with the FFMIA, and do not comply with Federal financial management systems requirements, applicable Federal accounting standards, and the USSGL at the transaction level. Please see the following section for additional detail.

Federal Asset Management Enterprise System (FAMES), Office of Administration: OIG has concluded that FAMES is noncompliant due to unsupported/unreconciled PP&E balances. OCFO/OIG is in agreement that PP&E was unauditable and will be excluded from the scope of the FY 2018 audit. Preliminarily, FAMES is noncompliant with potentially all three FFMIA 803(a) elements: 1) financial system requirements (various); 2) federal accounting standards, SFFAS No. 6, Accounting for Property, Plant and Equipment; and 3) USSGL (PP&E at the transaction level). In FY 2019, HUD will implement the Oracle Fixed Assets module to track Internal Use Software to resolve some of the PP&E weakness. The Office of Administration will work toward bring FAMES back into compliance with FFMIA.

Integrated Disbursement Information System (IDIS), CPD: OIG asserted that IDIS does not comply with the standards included with OMB A-123 Appendix D, FFMIA, and federal financial accounting standards such as USSGL requirements. At the core of this issue is the financial attribution methodology known as FIFO. CPD made necessary modifications to the Grant system to align the obligation and disbursement transactions for grants issued beginning in FY 2015 and forward on a grant specific basis. However, a feasible solution was not found to address the pre-FY 2015 Historical Transactions, which will continue to use a FIFO disbursement method to liquidate obligations. Therefore, due to the materiality of the pre-FY 2015 unliquidated Obligations on the Department's financial statements; the material weakness will remain until the balances become immaterial. It is estimated to be 3-4 years before the balances drop below the materiality level.

DRG – CPD: In FY 2017, DRGR was determined to be non-compliant with FFMIA due to invalid obligations. CPD is working on resolving OIG Audit Report 2017-FO-0003 Recommendation 8E and OIG Audit Report 2018-FW-0802. It is anticipated that a final resolution will be determined by December 31, 2020.

NCIS, OCFO: In FY 2016, OIG asserted that NCIS is non-compliant with FFMIA, due to data alignment and interface weaknesses between HUD's legacy systems and ARC's Oracle platform. OCFO resolved interface weaknesses during FY 2018 and is working on resolving the remaining default value data conversion issues to bring NCIS back into compliance with FFMIA.

Single Family Mortgage Asset Recovery Technology System (SMART), Office of Housing: HUD determined that SMART is non-compliant with FFMIA due to open audit recommendations related to significant delays in billing noncompliant mortgagees for partial claims for which the promissory note was not provided within 60 days. Housing established a remediation plan in FY 2017 and is continuing to work toward bringing SMART back into compliance by December 31, 2018.

Single Family Acquired Asset Management System (SAMS), Office of Housing: HUD determined that SAMS is non-compliant with FFMIA due to open audit recommendations related: to 1) weaknesses in the unliquidated balance review process; 2) inaccurate individual undelivered order balances for management and marketing contracts; 3) insufficient interface reconciliation between the Single-Family Insurance System (SFIS) and SAMS; and 4) least privilege and segregation of duties requirements not fully implemented for SAMS users. Housing has established a remediation plan and is working to bring SAMS back into compliance.

Tenant Rental Assistance Certification System (TRACS), Office of Housing: HUD determined that TRACS is non-compliant due to open audit recommendations related to: 1) non-compliance with administrative control of funds policies and procedures; 2) evidence of continuing presence of invalid obligations; 3) not meeting FY 2015 improper payment reduction target on Rental Housing Assistance Programs (RHAP); 4) not identifying or reporting high-dollar overpayments for RHAP in compliance with Executive Order 13520; 5) inaccurate RHAP improper payment estimate reported in the FY 2015 AFR; and 6) continuation of significant improper payments in RHAP. Housing has established a remediation plan and is working to bring TRACS back into compliance.

Ginnie Mae Financial and Accounting System (GFAS), Ginnie Mae: Ginnie Mae stated in their June 30, 2018 Statement of Assurance memo that they did not provide assurance on internal control over financial reporting and financial management systems, given weaknesses affecting the overall financial management system, as indicated by the disclaimer of opinion on the FY 2017, FY 2016, FY 2015, and FY 2014 financial statements and related material. The financial management system covers the manual business processes and controls that affect the activity being recorded within the system. Assuming that no other relevant material weaknesses are identified, Ginnie Mae will be able to provide FFMIA assurance for GFAS once the four previously identified material weaknesses are remediated.

Other Management Information, Assurances, and Legal Compliance

Anti-Deficiency Act (ADA)

The ADA *(Public Law No. 97-258)* was enacted by Congress to prevent the incurring of obligations or the making of expenditures in excess of amounts appropriated, apportioned, or allotted. The Department, in coordination with OMB, had in the past few years completed a major effort to do so, and continues to examine and strengthen its financial controls across all offices and programs in an effort to prevent ADA violations. This entailed a comprehensive review of HUD's financial management practices, communication protocols, and written guidance. The Department updated its funds control policy by issuing the HUD *Administrative Control of Funds Policies, 1830.2, REV-6 (Funds Control Handbook)* along with the HUD *Administrative Control of Funds Procedures for Salaries and Expenses* which were further updated during the year.

In addition, departmental funds control processes were streamlined by converting over 200 funds control plans for HUD program funds to more transparent and user-friendly funds control matrices, and these matrices were further updated during the year. The Department continued to sponsor GAO Appropriations Law training sessions, especially for those employees throughout the Department with public trust responsibilities involving the obligation and expenditure funds and provided training to HUD's procurement team. The Appropriations Law Staff in OCFO provided appropriation law and funds control guidance throughout the year in a continuing effort to prevent ADA violations.

Debt Collection Improvement Act of 1996 (DCIA)

The DCIA, as amended, requires that Federal agencies refer delinquent debts to Treasury within 120 days and take all appropriate steps prior to discharging debts. HUD and Ginnie Mae did not always follow applicable requirements for establishing and collecting debts, which resulted in noncompliance with the DCIA. OCFO plans to commence a full end-to-end analysis of its debt management to strengthen controls and ensure compliance with Debt Collection statutes and regulations.

DATA Act

On May 9, 2014, the DATA Act was signed into law with the objective of making Federal spending more easily accessible, transparent, and standardized. The DATA Act amended the Federal Funding Accountability and Transparency Act of 2006 (FFATA). In addition to reporting financial assistance data monthly, HUD must submit seven files to Treasury's Broker system quarterly, integrating budget, financial, procurement, and financial assistance data for publication on USASpending.gov.

FHA, Ginnie Mae, and HUD proper loan programs are expected to be compliant with the completion of Q4 reporting. OCFO is currently executing an accelerated roadmap to achieve full compliance across all components by the Q4 submission deadline of November 14, 2018.

Payment Integrity

This section discusses HUD's compliance efforts with the Improper Payments Information Act of 2002 (IPIA), as amended by the Improper Payments Elimination and Recovery Act of 2010 (IPERA), and the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA). For more detailed information on HUD's IPERIA compliance effort, please visit https://paymentaccuracy.gov/.

Payment Reporting

Improper Payment Reduction Outlook (In Millions)					
Program Name	**FY 2018 Outlays**	**FY 2018 Properly Paid Amount**	**FY 2018 Properly Paid Percentage Rate**	**FY 2018 Improperly Paid Amount**	**FY 2018 Improperly Paid Percentage Rate**
Office of Public and Indian Housing - Tenant-Based Rental Assistance (PIH-TBRA)[70]	$5,562.45	$5,562.45	100.00%	-	-
Ginnie Mae - Contractor Payments[71,72]	$241.62	$186.89	77.35%	$54.73	22.65%
CPD - Disaster Relief Appropriations Act (DRAA) (Sandy)	$2,109.20	$2,094.52	99.30%	$14.68	0.70%
FHA - Single Family Insurance Claims(SFIC)[73]	$10,949.70	$10,933.30	99.85%	$16.40	0.15%

[70] HUD continued the pilot testing of improper payments in its rental assistance programs. In FY 2018, HUD conducted testing at a public housing agency. No improper payments were found during testing. Consistent with the OMB-approved original pilot, the estimates for FY 2019 were developed by averaging the testing results of the pilot for the two prior years.

[71] HUD reports on prior year data for IPERIA. Ginnie Mae began remediating its contractor payment errors at the end of FY 2018 with the majority of efforts beginning in FY 2019. Therefore, HUD anticipates a similar error rate in FY 2019 when testing FY 2018 payments.

[72] FY 2018 is the first year of estimating and reporting improper payments in this program.

[73] Ibid.

Improper Payment Reduction Outlook – Continued (In Millions)					
Program Name	**FY 2018 Over-payment Amount**	**FY 2018 Under-payment Amount**	**Improper Payments Made by Government**	**Improper Payments Made by Third Party**	**FY 2019 Reduction Target**
PIH-TBRA[74]	-	-	-	-	0.68%
Ginnie Mae - Contractor Payments[75,76]	$54.73	-	$54.73	-	22.00%
CPD - DRAA (Sandy)	$14.68	-	-	$14.68	0.50%
FHA - SFIC[77]	$16.40	-	$16.40	-	0.14%

Improper Payment Root Causes (In Millions)			
Program Name	**Payment Type**	**Insufficient Documentation to Determine**	**Total**
PIH - TBRA	Overpayments	-	-
PIH - TBRA	Underpayments		-
Ginnie Mae - Contractor Payments	Overpayments	$54.73	$54.73
Ginnie Mae - Contractor Payments	Underpayments		-
CPD - DRAA (Sandy)	Overpayments	$14.68	$14.68
CPD - DRAA (Sandy)	Underpayments		-
FHA - SFIC	Overpayments	$16.40	$16.40
FHA - SFIC	Underpayments		-

74 HUD continued the pilot testing of improper payments in its rental assistance programs. In FY 2018, HUD conducted testing at a public housing agency. No improper payments were found during testing. Consistent with the OMB-approved original pilot, the estimates for FY 2019 were developed by averaging the testing results of the pilot for the two prior years.

75 HUD reports on prior year data for IPERIA. Ginnie Mae began remediating its contractor payment errors at the end of FY 2018 with the majority of efforts beginning in FY 2019. Therefore, HUD expects a similar error rate in FY 2019 when testing FY 2018 payments.

76 FY 2018 is the first year of estimating and reporting improper payments in this program.

77 Ibid.

Corrective Action Plans

Office of Public and Indian Housing - Tenant-Based Rental Assistance and Office of Multifamily Housing - Project-Based Rental Assistance

Justification

HUD is working to estimate improper payments in these two programs using a statistically-valid and rigorous approach. As stated later in the Estimation section, HUD conducted limited testing at one site in FY 2018 for the PIH – TBRA program. While this testing will inform the development of a statistically-valid and rigorous approach, it was not inclusive of all possible root causes in the PIH – TBRA program. In addition, the testing was not focused on the Office of Multifamily Housing – Project-Based Rental Assistance Program (RAP). When a statistically-valid approach is developed for both programs, approved by OMB, and executed, HUD will be able to establish corrective actions. The corrective actions for these programs will likely be focused around enhancements to the Enterprise Income Verification (EIV) system. HUD is working to better identify, recapture, and prevent instances of ineligible tenants or incorrectly calculated tenant subsidy.

Ginnie Mae – Contractor Payments

In FY 2018, HUD first estimated improper payments in the Ginnie Mae – Contractor Payments programs and identified the root causes of improper payments. Now that this work has been accomplished, HUD is able to address the root causes by developing corrective actions which will be reported in the FY 2019 AFR. Remediation began at the end of FY 2018 and the majority of efforts will be undertaken in FY 2019. Preliminarily, the corrective actions will include better documentation to support contract expenses and ensuring that invoices are properly reviewed and paid in accordance with the agreed upon terms and conditions of contracts.

CPD – DRAA (Sandy)

Justification

The improper payments estimated for the CPD – DRAA (Sandy) program do not exceed the statutory thresholds listed in OMB Circular A-123, Appendix C, Part I.B.1 (improper payments exceeding either: 1) both 1.5% of program outlays and $10,000,000 of all program or activity payments made during the fiscal year reported; or 2) $100,000,000). Therefore, HUD does not report corrective actions for this program.

FHA – SFIC

The improper payments estimated for the FHA – SFIC program do not exceed the statutory thresholds listed in OMB Circular A-123, Appendix C, Part I.B.1 (improper payments exceeding either: 1) both 1.5% of program outlays and $10,000,000 of all program or activity payments made during the fiscal year reported; or 2) $100,000,000). Therefore, HUD does not report corrective actions for this program.

Recapture of Improper Payments Reporting

Programs with Payment Recapture Audit Plans

CPD: CDBG–DRAA (Sandy)

CPD's improper payment estimation process (see the Sampling and Estimation description) for the DRAA (Sandy) funds incorporates a payment recapture audit plan. HUD estimated improper payments from the findings of the risk-based audit activities that are supported by the administrative appropriations. The program exhibits in the CPD Grantee Monitoring Handbook were amended with questions added for the purposes of capturing improper payments identified in financial management and program file-level reviews during the course of on-site monitoring visits. For each monitoring review, a determination was made whether a grantee had made improper payments at the individual program level as part of his or her review of the grantee's program. CPD initiates collection procedures immediately upon the identification of any improper payments during the on-site review.

Condition

The condition that led to improper payments that were identified and recovered was the general nature of the appropriations. The DRAA (Sandy) supplemental appropriations are subject to national standards of a very general nature, none of which govern the levels of payment or set any rules through which payments can be judged as proper or improper. OMB approved the alternative estimation approach utilized for this program to address this matter and it is being resolved via on-site monitoring reviews of the highest risk grantees.

S&E, Bi-Weekly Pay, Purchase Cards, Travel, and Retirement and Benefits

One of the Office of the Chief Human Capital Officer's (OCHCO) enterprise-wide responsibilities is to examine all payments to all employees. On a bi-weekly basis, OCHCO runs a bi-weekly payroll report by using Treasury's ARC's Oracle Financial System. These reviews are done with the intent of minimizing improper payments.

OCHCO examines all payments against prior payments to see if any improper payment was made. If any improper payment was made, OCHCO then takes the necessary action(s) to rectify the mistake. For example, OCHCO collaborates with OCFO in Headquarters and the BFS to run all the necessary reports from WebTA, ARC's Oracle Financial System, and NFC to see where the discrepancy was made. Once the source has been identified, then OCHCO corrects the issue or determines if it is feasible to correct the improper payment.

Through the Payroll, Benefits, and Retirement Division's (PBRD) quality review process, overpayments are identified and validated. Once validated and corrected through the NFC database, the debt is generated, and the employee is notified of the indebtedness. After due process, the collection process is initiated.

In the administration of its contract and interagency agreement relationships, including BFS, OCHCO Contracting Officer's Representative (COR) reviews and processes invoices, verifying invoice submissions against the pricing schedule and ARC's Oracle financial system prior to approval. The CORs and OCPO contracting office are responsible for reviewing and tracking invoice numbers and amounts to prevent overpayment and duplicate payment for the same services in any given month. The COR is responsible for comparing the contract/Inter-Agency Agreement (IAA) financial and deliverables schedule to the amount being invoiced. Whereas most OCHCO contracts/IAAs are fixed-price, the COR confirms this against the pricing schedule. Once confirmed, the COR provides approval through the Invoice Processing Platform (IPP) to authorize vendor payments for services exceeding $3,500. For federal agency Intra-Governmental Payments and Collections (IPACs), the COR reviews the ARC's Oracle financial IAA files, then validates the payment by completing the template provided by ARC. Administrative payments such as vendor payments, travel, and other typical support costs are directly tied to OCHCO's funds control plan which minimizes the risk for overpayments. OCHCO's Budget Division conducts periodic audits of their invoices to prevent duplicate payments of the same invoices. As it applies to payables, the ARC's Oracle financial system has a feature that prevents entering the same invoice twice with the same supplier name unless dates are different. Administrative processing and systems capabilities/efficiencies enables a series of cross-checks and verifications that prevents or significantly reduces potential overpayments that did not exist before or were subject to human error. Vendor payments are only approved up to the total value of the contract, purchase order, or IAA, which greatly reduces the possibility of overpayment. At the end of the contract performance period, contracts/IAAs go through formal closeout procedures and reconciliation which identifies any potential overpayments or payments made for incomplete deliverables. OCHCO contracts include a clause that requires the withholding of the final payment until the vendor has submitted the required deliverable and it has been accepted by OCHCO. As a result, this process prevents erroneous payments to vendors for unacceptable or incomplete deliverables at the end of the lifecycle of the contract.

Condition

No improper payments were identified in FY 2018. Therefore, no condition that leads to improper payments exists.

PD&R Grant Program

In the pre-award phase before a grant is awarded, PD&R conducts a review to ensure that a grantee has financial controls in place to manage the funds. PD&R checks the grantee's audit on the Federal Audit Clearinghouse to ensure there are no open HUD findings; Treasury's DNP portal is also checked prior to award to ensure there are no debt matches. In addition, PD&R ensures that the grant terms and conditions include the appropriate clauses so that the grantee is aware of their responsibilities in carrying out the grant requirements. These pre-award steps are put in place to minimize the occurrences of improper payments.

As each grant commences and costs are incurred, each drawdown requested by the grantee is reviewed by the COR. Before approving the drawdown, the COR compares the work plan to progress reports and project outputs; reviews the SF-425 (Federal Financial Report); compares the amount of project drawdowns relative to project completion; assesses whether the funds requested is appropriate for the services/outputs provided; and verifies that there are no debt matches on Treasury's DNP system.

These reviews are done with the intent of minimizing improper payments. In the few instances where overpayments are discovered, the grantees return the funds to HUD, and the funds are credited to the grant for future drawdowns. These funds remain on the grant until one of the following occurs: 1) grantee and COR closeout documents are submitted and any excess funds are de-obligated; or 2) the period for disbursements has expired and any excess funds are then de-obligated.

Concerning the life cycle of payments, as stated above, grantees are paid on a cost reimbursable basis and the COR reviews each payment and checks the work-plan and deliverables prior to releasing the funds to ensure there is no risk of erroneous payments during the grant lifecycle. There are also measures put in place for the processing of the final grant payment. Specifically, the terms and conditions for PD&R's grants and cooperative agreements include a clause that requires the withholding of the final payment until the grantee has submitted the required deliverable and it has been accepted by PD&R. This process, at the end of the lifecycle of the grant, prevents erroneous payments to grantees for unacceptable or incomplete deliverables.

Condition

No improper payments were identified in FY 2018. Therefore, no condition that leads to improper payments exists.

OLHCHH Lead Hazard Reduction Grants

OLHCHH reviews and analyzes grantees' and contractors' accounting and financial records during the negotiation of the grants or contracts. Additionally, the supporting documentation provided with each invoice is reviewed to identify erroneous computations. The Office requires that payments be made only after prepayment reviews by the CORs, for grants, and the Certified Occupancy Specialist (COS), for contracts. For grants, this is supplemented by the required submittal of the backup documentation for invoices of $100,000 or more for direct lead hazard evaluation and control work. This also includes the unannounced, once-per-fiscal-year requirement by the COR that each lead hazard control or healthy homes production grantee to submit all relevant documents to the COR for evaluation before the COR authorizes payment. This is an addition to the routine posting of supporting information for invoices onto the Office's on-line Healthy Homes Grants Management System.

For contracts, the Office issues performance-based, firm fixed price contracts and task orders, so that the COR receives documentary support for the accomplishment of the contract's requirements as deliverables in the contract reporting and/or invoicing. This is supplemented by detailed review of invoices by the COS for errors, including over- and under-payment requests. These procedures are in addition to the ongoing requirement that all relevant documents be made available before making payments. All documentation must be provided to the COR upon request, with or without cause.

The performance of the CORs and COSs is overseen by the Office's management. This approach is in line with applicable regulations, e.g., *Title 48 of CFR, i.e., the Federal Acquisition Regulations, Title 2 of the CFR, i.e., Grants and Agreements, 24 CFR §84, 24 CFR §85,* and policy (e.g., OMB Circulars and Memoranda, HUD's Grants and Procurement Handbooks, and the Office's Desk Guide), and is incorporated in to their personnel evaluations.

OLHCHH's process for reimbursable funding is as follows:

The requested amount is called in (by phone) by the grantee to the LOCCS. The grantee then forwards to the COR: Form HUD-27053 (Request Voucher for Grant Payment), Part 3, invoices, and supporting documentation. The COR examines the above documentation and approves or disapproves the LOCCS draw down request in the LOCCS System. Grantees are promptly notified if the LOCCS draw down is rejected by the COR. During the close-out of a grant, if it is determined that a financial error has occurred during its performance, the grantee provides an explanation of the problem and, if required by the COR, the grantee submits a check to resolve any financial issues. The COR forwards the check and letter of explanation to the Budget Officer for recapturing funds, including a copy of the check and letter of explanation with the close-out package to the Grant Officer. The Grant Officer documents returned funds on form HUD-1044 (Assistance Award/Assistance). OLHCHH's process assures quality spending and monitoring for reimbursable funding.

The risks of improper reimbursements are low due to several reasons. OLHCHH is a reimbursement program; any funds distributed are for services that have already been completed and invoiced. Additionally, every three months, grantees submit information on work performed and provide a financial statement using the SF-425, HUD-Part 3, and supporting documentation. SF-425, HUD - Part 3 and form HUD-27053 must match data in LOCCS System and all totals must be the same. Under remote monitoring, a COR performs these extra checks to ensure accuracy as often as needed. On-site monitoring is conducted once a year after risk analysis is completed and/or high-risk is determined for each grantee. Poor performing grantees are required to submit weekly or monthly reports.

If an improper payment is identified, the COR or COS, as applicable, provides the funds recipient with documentation of the determination of the improper payment, the regulatory, grant-specific, and/or contractual basis for recovering the improper payment, a due date for recoupment, and a due-process opportunity to appeal. The appeal, if made, goes to the Grants Division Director (for grants) or Deputy Director of the Office (for contracts), as applicable. Should the request not be appealed, or the appeal denied, and the funding recipient did not refund the improper payment, the matter would be referred to the Office of General Counsel for action.

OLHCHH currently has no outstanding non-collectable improper payments. Though there are no amounts that need to be recovered at this time, the Office's procedures depend on when in the course of an appropriation authority amounts were recovered. If the recovery occurred prior to the end of the obligation authority period, when the Office could re-obligate the funds, the Office would apply the funds to their original purpose; if not, the Office would return the funds to the Treasury.

Condition

The condition that lead to the identified and recaptured improper payments was incorrect documentation which was submitted by grantees and was then accepted by CORs and COSs. This was corrected by providing training to CORs and COSs.

Office of Housing – FHA: Other Disbursements, Contracts/Grants (includes Single Family Upfront Grants), Federal Finance Bank Direct Loans, HECM Claims, HECM Notes, Multi-Family Insurance Claims (MFIC), MultiFamily Notes, MultiFamily Property, MultiFamily Premium Refunds, Single Family Notes, Single Family Premium Refunds - Distributive Shares and Refund System (DSRS), SAMS, Title I Claims, Title I Notes, SFIC

FHA's recovery auditing program is part of its overall program of effective internal control over payments. Internal controls policies and procedures establish a system to monitor improper payments and their causes, and include controls and actions for preventing, detecting, and recovering improper payments. In addition to implementing the controls established by the FHA, programs have taken specific actions to develop and regularly generate a report that identifies potential duplicate disbursements, researching the questionable disbursements and initiating recovery actions for payments deemed to be improper.

As part of the recapture audit plan, internal control documents and files are reviewed, post claim reviews are performed, a risk assessment survey is performed, risk assessments are performed by programs' managers, OIG and GAO audits are reviewed, a review is done of Lender Activities and Compliance to include lender reviews, grants and contract disbursements are reviewed, and disbursement data is analyzed. A review of the DNP Initiative is also performed.

Under Direct Debt Collection, the Financial Operation Center (FOC) is primarily responsible for Generic Debt collection and customer service activities, including responding to debtor inquiries regarding pay-off, payment plans, compromises, disputes and appeals, etc.

The Debt Referral Package primarily consists of copies of legal documents, mortgages, deeds of trust, judgments and other recorded lien documents, lien assignment documents, repayment agreements, credit reports, correspondence to/from debtors, and compromise agreements and supporting documents.

The Debt Collection Asset Management System (DCAMS) is the application used to support the Generic Debt collection process. DCAMS is designed to automatically send collection letters, report delinquent debt to Credit Bureaus and HUD's Credit Alert Interactive Voice Response System (CAIVRS), assess penalties and administrative costs, and refer eligible debts to the Treasury Offset Program (TOP) and Cross-Servicing based on predefined criteria and the status of that case as reflected in DCAMS data fields (not later than 180 days after the demand letter). DCAMS is consistently updated to prevent improper referral for TOP offset.

For Internal Offsets, over-claimed amounts (negative claims) occur when the mortgagee owes FHA. Single Family Claims Branch (SFCB) sends lenders a billing letter for the excess amounts claimed and tracks the receivables using the Accounts Receivables Sub-system (ARS).

Receivables are established in SFCB's ARS and identified by FHA case number. Each FHA case number is further identified by Section of the Act (which is linked to the appropriate fund) and endorsement date. This later date identifies the cohort year. The Holder of record to which the claim funds were originally disbursed is identified in ARS as the debtor, by default. When the receivable is subsequently liquidated by funds remitted by a Mortgagee or by offset, the collected amount is posted to the previously identified FHA case number, Section of the Act, and cohort year.

If payment is not received from a lender within 90 days, the receivable is offset against subsequent claims by the lender until the full amount of the receivable is satisfied. If a receivable is not satisfied within 120-150 days, it is referred to the FOC in Albany, NY, for enforced collection actions. At that time, the FOC officially confirms acceptance of the transfer of an aged, delinquent debt, and that receivable has been removed from the ARS with the notation that it has been referred to FOC for recovery.

Another avenue by which improper payments are recaptured is through Post Claim Reviews. A statistical sample of settled claims is reviewed for compliance with FHA servicing and claim filing requirements. A report of findings, both monetary and financial, is prepared and issued to the individual mortgagee. Mortgagees have two opportunities to refute the findings by providing additional documents, before a final report is issued. If the Mortgagee chooses to pay the monetary findings prior to HUD's issuance of the final report, those funds are deposited to ARS, which applies them to the Mortgage Insurance (MI) fund. Upon issuance of the final report, it is referred to the FOC which establishes it as a receivable and tracks it until paid in full.

If a lender is overpaid on a multifamily claim, the Multifamily Claims Branch will demand the overage back from the lender. If the lender fails to respond to their demands, the debt is referred to the FOC for collection.

Finally, for Treasury Cross-Servicing, the collection of Generic Debt is governed by the DCIA and HUD policies (Title I and Other Debt Collection Guidance 4740.2). The Act requires Federal agencies to refer eligible delinquent debts to Treasury (for Cross-Servicing and TOP) by the time a debt is 120 days delinquent. The Treasury's TOP allows Federal Agencies to report delinquent non-tax debt to the BFS. BFS performs computer matching with disbursement data and processes an offset when an appropriate match is determined. After referral, Treasury and its private collection agencies are responsible for contacting the debtor to collect the payment of the debt.

The Treasury's Cross Servicing is a process used by BFS to refer the debt collection to a private collection agency, among other actions, in an attempt to collect delinquent debts on behalf of the Federal Agencies.

FOC's recapture process establishes receivables in DCAMS and issues a demand notice to the debtor(s). If the debt remains unpaid, DCAMS issues a "Notice of Intent" warning regarding enforced collection measures and informs the debtor regarding his/her due process rights. DCAMS automatically reports information to credit bureaus and CAIVRS. Penalty and administrative cost charges are also automatically assessed if warranted.

If the debt remains unpaid, it is referred to Treasury (within 180 days) for offset via the government-wide TOP and for direct collection action by Treasury and Treasury-contracted private collection agencies. Treasury also initiates referral to the Department of Justice (DOJ) for civil litigation and/or initiates Administrative Wage Garnishment (AWG) action if they deem such action to be appropriate.

If Treasury cross-servicing action is not successful, Treasury "returns" the debt to the FOC. If older than two years, the receivable is written-off and the case is reclassified "currently not collectible." The FOC keeps the case open if offset via TOP appears fruitful or if other collection measures are applicable (e.g., AWG action by HUD). Otherwise, the FOC terminates collection action, closes the case out, and the system issues an IRS Form 1099C the following January if appropriate. Write-off, Termination, Close-out, and 1099C issuance can also occur at any point in the above collection cycle if determined appropriate (e.g., debtor is discharged as bankrupt).

Collections from debtors to HUD go to the Treasury Lockbox Network or Pay.gov. Collections from debtors to Treasury or DOJ come to HUD via interagency transfer (i.e., IPAC). No matter the route, all payments are posted to the receivable in DCAMS.

Condition

Several conditions have led to improper payments, one of which being a lack of compliance with underwriting requirements. This condition was corrected by taking steps to strengthen controls over the underwriting process, through the implementation of a Loan Review System (LRS). Lenders interact with FHA through the LRS for the majority of FHA's quality control processes, including post-endorsement loan reviews, Direct Endorsement test cases, lender monitoring reviews, and self-reporting of fraud and violations of FHA policy. This consolidation of multiple quality control processes into a single, unified system allows FHA to better organize and track its interactions with lenders on these critical issues, and significantly enhances loan quality reporting and analytics. It also helps FHA to better manage its quality control processes and quickly identify risks to its portfolio. Additionally, FHA continues to improve the post claims review function by strengthening internal controls to ensure SF Claim payments are accurate and supported. FHA has assigned additional staff members to the post claims team, procured a statistical sampling contractor with clarified guidance regarding the responsibilities of Post Claims Reviews. The post claims review team has also coordinated reviews with SF Housing staff to increase knowledge.

Programs without Payment Recapture Audit Plans

Due to an unforeseen contracting delay, HUD was unable to update its analysis and justification for programs that do not have payment recapture audits in FY 2018. The contract is now awarded, and this justification will be provided in the future.

Overpayment Payment Recaptures with and without Recapture Audit Program (In Millions)				
Overpayments Recaptured through Payment Recapture Audits				
Program or Activity	**Amount Identified in FY 2018**	**Amount Recaptured in FY 2018**	**Recapture Rate in FY 2018**	**FY 2019 Recapture Rate Target**
CPD	$4.06	$1.98	48.77%	10.00%
FHA - SFIC	$2.60	$0.28	10.77%	25.00%
OLHCHH	$0.10	$0.10	100.00%	100.00%
TOTAL	**$6.76**	**$2.36**	**34.91%**	

Overpayment Payment Recaptures with and without Recapture Audit Program (In Millions)			
Overpayments Recaptured outside of Payment Recapture Audits			
Program or Activity	**Amount Identified in FY 2018**	**Amount Recaptured in FY 2018**	**Recapture Rate in FY 2018**
CPD	$123.75	$17.73	14.33%
FHA	$0.90	$0.03	3.33%
OLHCHH	-	$0.01	N/A[78]
OCFO	$1.77	-	0.00%
OGC	$143.22	$127.80	89.24%
Housing	$21.38	$17.96	84.01%
PIH	$23.17	$0.77	3.31%
Office of the Secretary	$55.35	-	0.00%
TOTAL	**$369.53**	**$164.31**	**44.46%**

[78] Amount recaptured in reporting period was identified in a prior period.

Disposition of Amounts Recaptured Through Payment Recapture Audits (In Millions)			
Program or Activity	**Amount Recaptured**	**Original Purpose**	**Returned to Treasury**
CPD	$1.98	$1.98	-
OLHCHH	$0.10	-	$0.10
FHA SFIC	$0.28	$0.28	-
TOTAL	**$2.36**	**$2.26**	**$0.10**

Aging of Outstanding Overpayments Identified in the Payment Recapture Audits (In Millions)				
Amount Outstanding 0-6 Months				
Program or Activity	**Cumulative Amount Identified[79] (Dollars)**	**0-6 months (Dollars)**	**0 – 6 months Percent (of program)**	**0 – 6 months Percent (of agency)**
CPD	$189.60	$1.98	1.04%	0.56%
OLHCHH	$0.21	$0.10	47.62%	0.03%
FHA - SFIC	$166.40	$0.24	0.14%	0.07%
TOTAL	**$356.21**	**$2.32**		**0.65%**

Aging of Outstanding Overpayments Identified in the Payment Recapture Audits (In Millions)				
Amount Outstanding 6 Months - 1 Year				
Program or Activity	**Cumulative Amount Identified[80] (Dollars)**	**6 months to 1 year (Dollars)**	**6 months to 1 year Percent (of program)**	**6 months to 1 year Percent (of agency)**
CPD	$189.60	-	0.00%	0.00%
OLHCHH	$0.21	-	0.00%	0.00%
FHA - SFIC	$166.40	$0.08	0.05%	0.02%
Total	**$356.21**	**$0.08**		**0.02%**

[79] Amount is cumulative of amounts reported as identified through payment recapture audits in the FY 2014 - FY 2018 HUD AFRs.
[80] Ibid.

Aging of Outstanding Overpayments Identified in the Payment Recapture Audits (In Millions)				
Amount Outstanding Over 1 Year				
Program or Activity	**Cumulative Amount Identified[81] (Dollars)**	**Over 1 year (Dollars)**	**Over 1 year Percent (of program)**	**Over 1 year Percent (of agency)**
CPD	$189.60	-	0.00%	0.00%
OLHCHH	$0.21	-	0.00%	0.00%
FHA - SFIC	$166.40	$3.23	1.94%	0.91%
Total	**$356.21**	**$3.23**		**0.91%**

Aging of Outstanding Overpayments Identified in the Payment Recapture Audits (In Millions)				
Amount Outstanding Determined Not To Be Collectible				
Program or Activity	**Cumulative Amount Identified[82] (Dollars)**	**Determined to not be collectible (Dollars)**	**Determined to not be collectible Percent (of program)**	**Determined to not be collectible Percent (of agency)**
CPD	$189.60	-	0.00%	0.00%
OLHCHH	$0.21	-	0.00%	0.00%
FHA - SFIC	$166.40	-	0.00%	0.00%
Total	**$356.21**	**$0.00**		**0.00%**

[81] Ibid.
[82] Ibid.

Agency Improvement of Payment Accuracy with the DNP Initiative

The DNP Initiative was established by IPERIA to support federal agencies in their efforts to prevent and detect improper payments. DNP helps to ensure the integrity of our nation's payment process by assisting agencies in identifying parties who are potentially ineligible to receive contract awards or payments from the Federal Government. DNP offers the ability for agencies to screen payment recipients on a pre-payment basis against databases identified in IPERIA through a single, secure web portal, and also provides post-payment screening against these databases to help ensure that any payments to potentially ineligible parties are identified for adjudication and possible recovery.

Aging of Outstanding Overpayments Identified in the Payment Recapture Audits (In Millions)[83]						
	Number of payments reviewed for improper payments[84]	Dollars of payments reviewed for improper payments[85]	Number of payments stopped	Dollars of payments stopped	Number of potential improper payments reviewed and determined accurate[86]	Dollars of potential improper payments reviewed and determined accurate[87]
Review with IPERIA specified databases	725,285	$56,466	-	-	2	$2,326.05
Reviews with databases not listed in IPERIA	-	-	-	-	-	-

The table in this subsection represents the DNP activities for FY 2018. During this period, payments disbursed by HUD were submitted to the scrutiny of pre-payment and post-payment verifications facilitated by the DNP Initiative against the available databases listed in IPERIA. Of these 725,285 payments totaling $56,466,047,426.13, two potential improper payments were identified. The matches were properly adjudicated in the DNP Portal and determined to be proper payments.

The effectiveness of the DNP post payment review of data, coupled with program specific pre-payment monitoring and screening of payments to prevent payments to ineligible parties, has resulted in an observed ineligible party payment rate of 0.0%. Management will continue to emphasize review and monitoring of established internal controls in an effort to prevent any

[83] Dollars in [millions] except in last column at right of the table where the single potential improper payment is expressed in whole dollars. To be clear, the amount of the potential improper payments is two thousand three hundred twenty-six dollars and five cents.
[84] As of publication of this report, the available payment data on the Do Not Pay Portal was through July 2018.
[85] Ibid.
[86] Ibid.
[87] Ibid.

future improper payments. HUD continues to have discussions with Treasury to determine the most beneficial way to monitor its programs through the DNP Initiative.

Pre-Payment Use of DNP and IPERIA Databases

HUD's DNP Policy requires that all HUD program and support offices, including FHA and Ginnie Mae, ensure that a thorough pre-payment and pre-award review of available databases with relevant information on eligibility is performed to determine program or award eligibility and prevent improper payments before the release of any Federal funds. Applicable transactions conducted by HUD consist of complex and varied payments and awards, which include verifying a range of transactions, from simple reimbursements to complex awards, against the applicable databases listed in IPERIA. HUD's efforts to ensure that only eligible parties are paid are strengthened with the use of the DNP screening and adjudication processes. The following examples of HUD's successes in the DNP effort are provided:

- The HUD Primary Local Security Administrator (PLSA) coordinated the first ever DNP Day at the Office of the Treasury DNP Office in Hyattsville, MD on July 11th, 2018. The DNP Day onsite visit promoted interoffice collaboration with the OCFO DNP PLSA and Program Office Local Security Administrators (LSAs) while providing an opportunity to discuss best practices that will enable LSAs to properly monitor the activities of the users, ensure the portal is being utilized as intended, and ensure that the HUD staff is able to leverage the DNP capabilities to the maximum extent possible.

- The HUD PLSA continues to coordinate with the offices the HUD CIO, OIG, CPD, FHA, and PIH along with the Department of the Treasury and the Federal Reserve Bank to execute the Computer Matching Agreement (CMA) that was signed on November 29, 2016. The CMA enables batch queries of multiple government databases while adhering to the provisions of privacy regulations.

- In collaboration with the DNP Outreach staff, the HUD Risk Officer is exploring how DNP can be leveraged to ensure that disaster relief funds are properly executed.

- In conjunction with utilizing the DNP portal on a pre-award/pre-payment and post-award/post-payment screening process, the CPD staff also conducts searches utilizing System for Award Management (SAM) and the Excluded Parties List System (EPLS), annually and semi-annually, to determine if a payment or award is being directed to an ineligible recipient.

- CAIVRS is a federal interagency database that contains delinquent debt information from: The Departments of Housing and Urban Development; Agriculture, Education; Veterans Affairs; and the Small Business Administration; along with lien judgment information from the Department of Justice. Housing uses the CAIVRS system to track indebtedness and to determine if the applicant is eligible for FHA insured financing. Borrowers that are flagged in CAIVRS are reviewed by Housing to determine if the borrower has an actual indebtedness to the Federal Government. If the borrower is delinquent on mortgage payments, that does not constitute an indebtedness to the federal government, it is an indebtedness to the lender and does not preclude the applicant from being eligible for FHA insured financing. In those cases, Housing will suppress the flag and allow the lender to move forward with the application.

Post-Payment Adjudication through DNP

Prior to the November 2014 implementation of mandatory in-portal adjudication, HUD utilized a DNP Task Force, consisting of members of OCFO and program offices' DNP representatives, to verify and adjudicate payments identified as potentially improper by DNP. During this time period, possible matches were identified through the process of name matching to DMF and EPLS. This process, which created a significant number of false matches, was replaced by in-portal adjudication shortly after the implementation of DNP Release 3.0, allowing a more secure and effective method for identifying verified matches to databases listed in IPERIA. Since November 2014, HUD has expanded the adjudication roles of DNP Users in program offices. On a continual basis, the HUD Primary Local Security Administrator reviews the DNP portal for verified post-payment matches to the databases listed in IPERIA. If a positive match is identified, the appropriate program office DNP representative is notified to determine if the identified payment was proper and was made to an eligible recipient. If the payment is found to be improper or to have been made to an ineligible recipient, the program office takes appropriate action to recover the payment.

Future Efforts with DNP

Use of the DNP Initiative in the post-payment adjudication process has demonstrated the effectiveness of the long-standing processes in place prior to the DNP Initiative, using databases and systems such as SAM, EPLS, and the Federal Awardee Performance and Integrity Information System (FAPIIS) to extensively verify the eligibility of HUD's payment recipients. HUD intends to continue to maintain DNP Liaisons in each program office and to increase the program offices' utilization of the resources on the DNP portal. HUD is seeking to further incorporate the benefits of the DNP Initiative throughout the Department in the form of pre-payment/pre-award screening with the establishment of pre-award batch matching processes for CPD and PIH. Additionally, HUD will leverage the newly developed HUD Agency Insight Report (AIR) to further bolster its DNP efforts including using the AIR to support efforts to comply with the Fraud Reduction and Data Analytic Act of 2015. HUD has an internal policy and devoted resources to reinforce its commitment to eliminating improper payments.

Accountability

Office of Public and Indian Housing - Tenant-Based Rental Assistance, Office of Multifamily Housing - Project-Based Rental Assistance, and Ginnie Mae – Contractor Payments

HUD program offices, managers, and staff are responsible for meeting applicable improper payments reduction targets and for establishing and maintaining sufficient internal controls, including a control environment that prevents improper payments from being made, and promptly detects and recovers any improper payments that may occur. Offices and managers are held accountable through a variety of mechanisms and controls, including annual performance measures aligned to the strategic plan, organizational performance review criteria, and individual annual performance appraisal criteria. HUD contractors are held accountable through various contract management and oversight activities and functions, control assessments, and audits.

CPD – DRAA (Sandy) and FHA – Single Family Insurance Claims

The CPD – DRAA (Sandy) and FHA – Single Family Insurance Claims programs reported estimated improper payments below the statutory threshold of 1.5% and $10,000,000 or $100,000,000. Therefore, reporting in the Accountability section of the Payment Integrity AFR disclosure is not applicable.

Agency Information Systems and Other Infrastructure

Office of Public and Indian Housing - Tenant-Based Rental Assistance, Office of Multifamily Housing - Project-Based Rental Assistance, and Ginnie Mae – Contractor Payments

HUD has the human capital, internal controls, and information systems and other infrastructure it needs to reduce improper payments to the levels the agency has targeted. HUD is evaluating its people, processes, and technology in order to strengthen these areas.

CPD – DRAA (Sandy) and FHA – SFIC

These programs reported estimated improper payments below the statutory threshold of 1.5% and $10,000,000 or $100,000,000. Therefore, reporting in the Agency Information Systems and Other Infrastructure section of the Payment Integrity AFR disclosure is not applicable.

Sampling and Estimation

CPD Entitlement Grants and HOME Investments

In FY 2016, HUD reported that the CPD Entitlement Grants Program and HOME Investments Program were susceptible to significant improper payments. In FY 2017, HUD implemented a risk assessment methodology that followed the OMB A-123, Appendix C *Requirements for Effective Estimation and Remediation of Improper Payment*[88]. During that process, HUD combined the CPD Entitlement Grants Program activity into the risk assessment performed for the CDBG Program. CDBG was rated as a program not susceptible to significant improper payment risk. Additionally, the FY 2017 risk assessment performed determined that the HOME Investments Program was also not susceptible. In FY 2018, HUD received approval from OMB to exclude these two programs from the estimation requirement.

Office of Public and Indian Housing - Tenant-Based Rental Assistance and Office of Multifamily Housing - Project-Based Rental Assistance

HUD previously combined the programs under a single program Rental Housing Assistance Programs. Going forward, the Public and Indian Housing and Multifamily Housing aspects will be separated into their own programs.

Through HUD's effort to revise its improper payment program, HUD OCFO is unable to implement a statistically valid sampling plan that will provide an IPERIA compliant estimate of the annual amount and rate of improper payments for these programs within the FY 2018 AFR.

In FY 2017, HUD obtained OMB approval to utilize a temporary Alternative Testing Methodology to identify improper payments in these programs. In FY 2018, due to limited resources, HUD conducted a condensed OMB approved Alternative Testing Plan.

The condensed alternative testing methodology assessed payments to entities, subsidies for individuals, entity eligibility, participant eligibility, deceased participants, and eligible administrative expenses. HUD performed limited reviews of payments made to PHAs and subsidy amounts received by individuals primarily to gain insight about the amount of documentation available to support a PHA's payment process. In support of the alternative testing methodology, HUD developed a sampling design to allow for an extrapolation of the validated errors for subsidies to individuals identified during the pilot testing. The validated actual errors (improper payments identified in payments to entities) and the extrapolated errors (improper payments identified in individual subsidies) were used to identify the estimated error rate for the Office of Public and Indian Housing Tenant Based Rental Assistance program.

[88] OMB revised Appendix C modifying the previous version with M-18-20 Requirements Integrity Improvement, issued on June 26, 2018.

Looking forward, we are taking a fresh look at our improper payment program as improper payments increase opportunity cost by reducing the number of Americans we serve. During FY 2018, we analyzed the effectiveness of past improper payments efforts, which primarily focused on sampling for payment eligibility errors and extrapolation of error rates. Our past efforts had limited success in correcting identified eligibility errors or preventing future or repeat eligibility errors, thus yielding a low-value return on our high-cost investment.

Further, the eligibility verification was limited to reviewing self-reported documentation maintained by a third-party, more of a documentation review than a verification of eligibility (i.e., completeness of information reported to properly assess eligibility and/or amount). A vast majority of our funds are managed/facilitated at the grantee or PHA levels. A key to reducing improper payments is increasing the tools at the grantee and PHA levels to improve accountability while reducing administrative burden.

During FY 2018, we initiated a pilot to analyze our income verification with a new tool called the Income Verification Tool (IVT) with the objective of refining the tool to leverage risk analytics, expanding independent verification to government data sources, and aligning the results with tenant annual recertification. The pilot included 12 PHAs ranging across all size spectrums. Through the pilot, 24,538 tenants across the 12 PHAs under reported their income equaling $293,535,788 during FY 2017. This has resulted a correction of income reporting, increasing reported income by $80,403,705 or 28% for the 12 PHAs and establishment of repayment agreements for the under-reported income in FY 2017.

Based on the positive results of the pilot, we began deploying IVT nationwide to all 3,903 PHAs, with a full implementation date of January 2019. In addition, we are evaluating expansion of the tool to Multi-family owners/landlords. We are also planning to develop a frontline tool for PHAs to check eligibility at time of application, which would move the program from detection after payment to prevention before the payment.

FHA - SFIC

HUD is unable to implement a statistically valid and rigorous sampling plan that will provide a statistically valid and rigorous estimate of the annual amount and rate of improper payments for the SFIC program within the FY 2018 AFR. HUD received OMB approval to estimate improper payments in the program using an alternative plan.

This alternative plan assisted HUD with the following tasks, which are essential to achieving the objective to correct structural issues within the improper payment program:

- Establishing testing protocols that address risks of improper payments at the time of payment;
- Validating that mortgagee documentation and records are maintained to support subsidy requests;
- Evaluating the accuracy of error definitions identified through risk assessments; and
- Developing an error estimation methodology that aligns with program operations.

This alternate methodology is the best use of HUD resources to achieve program objectives while also estimating potential improper payments.

Alternative Plan Methodology

From the full population of mortgagees, HUD targeted the highest risk lenders with claim disbursements in FY 2017 and the preceding two years. The remaining population of mortgagees were subject to review given the available funding resources. Lenders are deemed high risk based on identified operational process deficiencies.

HUD then implemented a stratified random sampling approach to select claims for each of the targeted lenders. Strata were defined based on the claim type and high-risk identifier for the claims within each targeted mortgagee. High-risk claims were isolated into their own stratum to ensure these claims are reviewed. Claims are deemed high risk due to documented operational deficiencies. The claims population to be reviewed within each lender included only the relevant claim types that may be associated with improper payments.

The sample size was a function of the total number of claims submitted by a mortgagee during the review period. Sample sizes were:

- **Size A:** A sample size of 95 claims selected for mortgagees that have submitted 2,000 or more claims in the review period.
- **Size B:** A sample size of 132 claims selected for mortgagees that have submitted between 500 and 1,999 claims in the review period.
- **Size C:** A sample size of 50 claims selected for mortgagees that have submitted between 100 and 499 claims in the review period.
- **Size D:** A judgmental sample size of 131 claims selected for mortgagees that have submitted between 50 and 99 claims in the review period.

- **Size E:** A judgmental sample size of 82 claims selected for mortgagees that have submitted between 5 and 49 claims in the review period.

The sample sizes noted above were established by HUD during its FY 2017 IPERIA testing based on the available resources to perform the reviews at that time. Targeted precisions for these sample sizes were not calculated. Given the continued resource constraints for FY 2018, HUD has elected to use the same sample sizes for the current year. This approach accommodates the business and compliance requirements of FHA's mission. Adjustments to the suggested sample sizes would be made as necessary.

HUD determined the sample allocation among the sampled mortgagees to achieve efficiency, while balancing operational needs and resource constraints. To allocate the total sample size among the various strata within each mortgagee, HUD utilized the Neyman Allocation method, per the following formula.[89]

$$n_h = n \times \frac{N_h S_h}{\sum_{h=1}^{k} N_h S_h}$$

Where *nh* is the allocated sample size for stratum *h, n* is the overall sample size, *k* is the total number of strata, *Nh* is the population count for stratum *h,* and *Sh* is the standard deviation of the estimated improper payment amount for stratum *h.*

For each targeted mortgagee, claims within each stratum will be sorted based on each claim's FHA case number (which is the unique identifier for each mortgagee claims population). After sorting, a random number based on a uniform distribution will generated for each claim using a generally accepted statistical programming language.[90] Within each stratum, the claims will then be re-sorted by the random numbers and FHA case number. Based on the sample size nh for each stratum, the first nh claims will be selected for each targeted mortgagee's sample.

Total Improper Payments

HUD identified an improper payment estimated error rate of SFIC payments for FY 2017 claims based on validated errors identified in the selected samples for the targeted mortgagees. Validated errors for claims paid identified during testing were extrapolated to the total amount of claims paid by the targeted mortgagees. The extrapolated errors at the targeted lenders were used to identify the estimated error rate for the SFIC program. Among other estimates, HUD utilized the

[89] The Neyman allocation formula can be found in Section 5.5:Cochran, William G., Sampling Techniques, third edition, John Wiley & Sons, 1977

[90] Such as STATA (with the version number explicitly noted).

Stratified Ratio Estimator extrapolation method. This method calculates the ratio of improper payment amount in the sample divided by claim amount in the sample (within each stratum), then multiplies these ratios with the population claim amounts (within each stratum). Stratum-level projections are then summed to arrive at total projected improper payments for the entire population.

HUD then extrapolated the improper payments identified in the sample to each targeted mortgagee's population of claims (factoring in the stratification design and population weights within each stratum). Then, HUD summed all projected errors across the targeted lenders and divided this sum by the total claims amount across the lenders to arrive at the SFIC estimated error rate for FY 2018 testing.

Ginnie Mae - Contractor Payments

HUD conducted a statistically-valid estimation methodology for this program. HUD obtained a population of cash distributions for the Ginnie Mae Contractor Payments Program covering the full 12-month FY 2017 period from October 1, 2016 through September 30, 2017, provided in an electronic data file. The statistician imported the data file into STATA, a statistical analysis software widely accepted for statistical sampling analytics, in order to conduct the analyses discussed in the subsequent sections. The statistician used a stratified random sampling methodology in order to select a valid statistical sample from the cash disbursements population.

The process used to determine the sample size follows the related OMB guidance. HUD targeted the overall sample size for the population to achieve a relative precision of 3% at the 95% confidence level. A sample was pulled from randomized data.

Error rates were extrapolated based on the sample findings over the entire population. A stratified separate ratio estimator was used to extrapolate the total error rate. A ratio was computed that was defined as the total error amount found in the sample over the total recorded dollar amount in the sample for that stratum. Within each stratum, the ratio of error amount was multiplied by the total recorded dollar amount in that stratum to project the total error amount for that stratum. The overall projected error amount for that particular type of error for the entire population is the sum of the stratum-specific projected error amount for all strata.

HUD's estimation methodology was to partition the cash disbursement population into eight strata based on the disbursement amount. During testing, two contracts were found to have unique fees. We are currently verifying if the unique fees are applicable to the remainder of the disbursement population. HUD slightly revised the extrapolation methodology to account for these unique fees by breaking each of the original strata into three parts: (a) Contract No. 1 only, (b) Contract No. 2 only, and (c) all others. These continue to be complete and mutually exclusive strata covering the full payment population, and we are using the same estimation approach/formulas (separate ratio estimation for a stratified random sample) as documented in the plan.

CPD - DRAA, 2013 – Sandy

The DRAA (Sandy) provides that all programs and activities funded under the act are susceptible to significant improper payments for purposes of IPERIA. Agencies receiving funds under DRAA (Sandy) must develop a protocol to calculate and report an improper payment estimate for appropriated funds.

OMB guidance on the development of an improper payment protocol for DRAA (Sandy) funds notes that "to implement improper payment measurements in the most cost-effective manner, agencies will have several options when conducting its improper payments testing for Sandy-related programs." Funds appropriated under DRAA (Sandy) are administered by CPD. Due to the nature of the funds, HUD has obtained OMB approval to use an alternative estimation approach for the funds rather than a statistically-valid methodology with a 95% confidence interval.

As a result, RHAP and DRAA (Sandy) programs, administered by HUD's CPD, and include Sandy, Sandy CDBGs, Sandy Charge Card payments, and Sandy Payments to Federal employees, are required to identify improper payment information in accordance with OMB Circular A-123, Appendix C Part I.A.9 Step 2. Due to the nature of the funds, HUD utilized an OMB approved alternative estimation approach to identify the disclosed amounts for DRAA (Sandy).

Estimation of Grant Funds

The DRAA supplemental appropriations are subject to national standards of a very general nature. None of the standards govern levels of payment or set any rules through which payments can be judged as proper or improper. An attempt to obtain a statistically valid estimation of improper payments would have to account for hundreds of specific program rules for the sample cases. This is the basis for which OMB approved the alternative estimation approach utilized for this program.

In lieu of a random sample approach to assessing improper payments in the CDBG-DR program, HUD estimated improper payments from the findings of the risk-based audit activities that are supported by the administrative appropriations. Additionally, HUD implemented this alternative sampling protocol for the higher risk grants funded under the Appropriations Act. While a risk-based, rather than random, selection of examined cases is likely to overstate the level of improper payments reported for the CDBG-DR program, the following is the only feasible method for HUD.

The Disaster Relief Special Issues (DRSI) Division implemented the protocol for the three highest risk grantees under DRAA (Sandy) as defined in the approved funds control plan for the appropriation (New York State, New York City and New Jersey). CDBG-DR exhibits in the *CPD Grantee Monitoring* Handbook were amended to reflect the specific requirements of P.L. 113 2 and the implementing Federal Register Notices, with questions added for the purposes of capturing improper payments identified in financial management and program file-level reviews during the course of on-site monitoring visits.

Information gathered in monitoring review exhibits was transferred into a separate worksheet titled "Grantee Level Template," to capture improper payments identified as part of each on-site monitoring review.

The frequency and total amount of grantee-level improper payments identified throughout the year was rolled-up as calculated through the attached worksheet titled "Fiscal Year Estimate Template." Funding that grantees received was monitored based on the total amount of grant funds expended annually for each high-risk grant and the number and amount of improper payments identified and calculate the estimated amount of improper payments for high-risk CDBG-DR grants funded calculated pursuant to DRAA (Sandy).

DRSI performed two on-site monitoring reviews of each of the highest risk grantees with allocations under DRAA (Sandy), New York City and the States of New York and New Jersey, over the course of each federal fiscal year. DRSI structured these reviews based on areas of high risk and previous monitoring conclusions. Prior to each visit, DRSI developed a strategy memo for each visit which outlined grantee projects and activities—and particular components or aspects of these projects or activities—that it had targeted for review.

For each monitoring review, a determination was made whether a grantee had made improper payments at the individual program level as part of his or her review of the grantee's program. As part of each review, HUD staff used a template to roll-up a grantee's program-level improper payments data, as gathered during the monitoring review to develop an improper payment estimate for the two fiscal quarters, which the monitoring review covers, for the grantee at an individual level. This template was used for both monitoring reviews and rolled up by DRSI at the end of the fiscal year to create an improper payment estimate for the grantee's activities for the fiscal year.

After the end of the fiscal year, DRSI used the individual improper payments estimate data for each of the three highest risk grantees to develop an improper payments percentage estimate for the portfolio of grants under P.L. 113 2. In order to do so, DRSI added the improper payment expenditure estimates for each of the three highest risk grantees together and divided that number by the total amount of funds drawn by those grantees during the fiscal year.

OMB guidance on the development of an improper payment protocol for DRAA (Sandy) funds notes, "to implement improper payment measurements in the most cost-effective manner, agencies will have several options when conducting its improper payments testing for Sandy - related programs." Funds appropriated under DRAA (Sandy) are administered by HUD's Office of CPD. Due to the nature of the funds, HUD has obtained approval from OMB to use an alternative estimation approach for the funds rather than a statistically valid methodology with a 95% confidence interval.

In lieu of a random sample approach to assessing improper payments in the DRAA (Sandy) program, HUD estimated improper payments from the findings of the risk-based audit activities that are supported by the administrative appropriations. While a risk-based, rather than random, selection of examined cases is likely to overstate the level of improper payments reported for the DRAA (Sandy) program, the approach is the only feasible method for HUD.

CPD's improper payment estimation process for the DRAA (Sandy) funds incorporates a payment recapture audit plan. CPD initiates collection procedures immediately upon the identification of any improper payments during the on-site review.

Estimation of Charge Card Payments

DRAA (Sandy) Charge card payments were only made for travel. For the travel payments, HUD obtained a statistically valid estimate of improper travel payments using its shared service provider, ARC, who made the travel payments.

Estimation of Federal Employee Payments

For payments to Federal employees under the Act, HUD examined payments to all employees that were paid using funds appropriated under the Act. HUD ran a report showing each payment to the employees. CPD examined one example of each unique payment amount to each employee to see if it was proper.

Total Improper Payments

To obtain the total improper payment made in each fiscal year, HUD reported the gross improper payments from each of the three types: grant, charge card, and Federal employee payments. HUD then summed the three types to report a total gross improper payment amount for funds under the Act. The improper payment rate was calculated using the formula's prescribed by OMB for Table 1 in the Improper Payments Reporting section.

IPERIA Risk Assessment

Description of Assessment

To ensure the population of programs to be assessed on a three-year cycle is complete, HUD works with HUD's FSSP, the Department of Treasury's BFS, ARC, using the system of record (Oracle) to compile a list of all HUD programs and/or funded activities with disbursements. FCAD also obtains a list of all Ginnie Mae programs with disbursements for review. In addition, FCAD performs an oversight review of the Federal Housing Administration's risk assessment. HUD conducted walkthrough meetings with HUD Program Offices including Funds Control Officers, Program Officials and other key stakeholders to discuss the purpose of the annual improper payment risk assessment, OMB A-123 Appendix C risk assessment requirements, the risk assessment template, and the risk assessment criteria. During this and subsequent meetings, Program Officials were provided improper payment Risk Assessment Templates, which are completed for each assessed program. These templates require the review of several internal and external miscellaneous reports, as well as the collection of all data and documents that ensure consistent review across all HUD programs.

HUD reviews all programs for susceptibility to significant improper payments on a three-year cycle. OMB released an updated version of A-123, Appendix C (M-18-20) as the risk assessments were being finalized for FY 2018. As such, HUD performed the risk assessments under the prior version of A-123, Appendix C (M-15-02) with the nine risk factors, which are likely to contribute to improper payments. Each program office was rated based on the following factors:

- **Risk Factor 1:** Whether the program or activity reviewed is new to the agency. This factor describes the age of the program; how long has the program existed; and considers the fact that the relative inherent risk of improper payments is higher for newer programs.
- **Risk Factor 2:** Complexity of the program or activity reviewed, particularly with respect to determining correct payment amounts. This factor describes any restrictions on how funds are provided to grant/contract recipients based on laws, regulations, and/or policies; any complex variables used to compute funding; and the number of awards/dollar amounts provided to grant recipients, etc.
- **Risk Factor 3:** The volume of payments made annually. This factor describes the number of payments (new and existing) made annually by the program, how many awardees are receiving payments, and the total program budget.

- **Risk Factor 4:** Whether payments or payment eligibility decisions are made outside of the agency. This factor describes who is responsible for payments or determines eligibility for payments to grant/and or contract recipients.
- **Risk Factor 5:** Recent major changes in program funding, authorities, practices, or procedures. This factor describes any recent or projected changes in program funding, procedures or authorities.
- **Risk Factor 6:** The level, experiences, and quality of training for personnel responsible for making program eligibility determinations or certifying that payments are accurate. This factor describes the level of experience of the individuals responsible for making program eligibility determinations and/or payment recommendations.
- **Risk Factor 7:** Inherent risks of improper payments due to the nature of agency programs or operations. This factor describes inherent risks otherwise not identified as improper payments due to the nature of agency programs or operations.
- **Risk Factor 8:** Significant deficiencies in the audit reports of the agency including OIG or GAO audit findings or other relevant management findings that might hinder accurate payment certification. This factor describes any OIG/GAO and Single Audit data findings surrounding the program, from what years, severity, and dollar amounts researched in the Audit Resolution and Corrective Action Tracking System (ARCATS) by HUD.
- **Risk Factor 9:** Results from prior improper payment work. This factor describes any improper payments identified through financial statement audits or other prior internal risk assessments.

The program office then assigned an overall rating of Low, Medium or High for each risk factor and an overall rating for the program based upon a holistic view of the risk factors. HUD subsequently reviewed the information for each risk factor. HUD worked with the program office to clarify any questions, provide missing documentation, and finalize the rating. An overall rating of High indicated that the program is susceptible to significant improper payments.

Basis of Program Grouping

HUD groups programs based upon allotment holder, appropriation account, and function. All S&E activities are assessed as one program. Similarly, all non-Ginnie Mae contracting activities are assessed as one program.

Changes to the Risk Assessment from the Prior Year

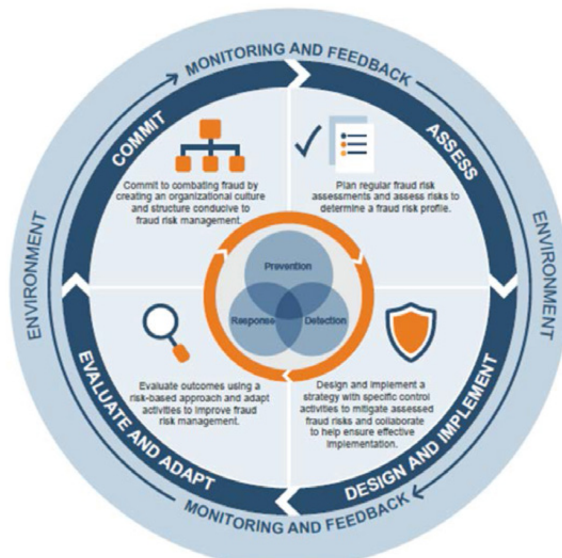
HUD revised its IPERIA Risk Assessment methodology primarily to establish a more consistent approach for identifying and assessing risks. HUD developed more clearly defined risk drivers and risk ratings, integrating all aspects of OMB Circular A-123, Appendix C requirements, to categorize risks for each HUD program. Additionally, HUD revisited its approach in conducting the risk assessment to be more efficient in time and utilizing available resources. For example, OCFO provided each program office with a Risk Assessment template and Risk Assessment Guide to aid in identifying and documenting current controls in place, as well as assess the level of risks based on risk tolerance. HUD expects results of the assessment to help program managers in evaluating root causes of improper payments and determining what actions are needed to address identified risks.

HUD also re-examined its existing policy on defining what is a program. Several activities that shared the same characteristics were correctly realigned to provide better consistency during our review and rating of each program. In addition, OCFO performed an oversight review of the Federal Housing Administration's risk assessment which adapted HUD's Risk Assessment process for FY 2018. Based on a 3-year cycle, OCFO provided notification and conducted initial walkthrough meetings with all HUD programs in scope, to discuss the revised process for the improper payment risk assessment, including expectations and outcomes.

Fraud Reduction Report

In FY 2018, HUD continued the development of its Department-wide ERM program and Enterprise Fraud Risk Management (EFRM) in accordance with OMB Circular A-123 and the Fraud Reduction and Data Analytics Act of 2015 (FRDAA). The focus of the ERM program centered on maturing a single integrated framework for risk and fraud management at HUD to identify, assess, manage, and report risks in the context of achieving HUD's strategic objectives. Additionally, HUD risk officers, stakeholders and business owners are working collectively across the organization to further integrate and align the strategy, performance, budget, capital planning, and risk management activities to better inform leadership decision-making and the strategic planning process.

In FY 2018, the Chief Risk Officer (CRO) role was integrated with the OCFO to provide a department-wide risk management capability across HUD and provide executive-level management, leadership, direction, and oversight to the ERM Program. The ERM program integrates ERM efforts to further align the strategic planning and strategic review process established by GPRAMA and the internal control framework required by FMFIA and GAO's Green Book with the ERM initiative to meet OMB requirements. Integration with OCFO allows the ERM program to strategically align with budget formulation and execution to mitigate risks with appropriated funds.



Source: GAO. | GAO-15-593SP

The agency's goal in using the integrated governance structure focuses on improving mission delivery, gaining efficiencies, and focusing corrective actions toward key risks.

As of FY 2018, HUD's ERM and EFRM Program has seen integration of enterprise risk and fraud within HUD's Risk Profile. HUD has incorporated practices from the framework on fraud risks published by the GAO. The framework is comprised of five components: Communications, Current State Snapshot, Fraud Risk Assessments, Antifraud Controls, and Monitoring.

Integrating FRM with ERM will allow HUD to consider the potential for fraud when identifying, analyzing, and responding to risks in all of HUD programs. Key Department-wide activities in FY 2018 demonstrate progress in the implementation of FRM include the CRO's sponsorship of a pilot fraud risk assessment that led to a fraud risk profile, which will serve as a model effort to facilitate subsequent fraud risk assessments. As part of this effort, the CRO has developed a fraud scheme index to raise awareness of common types of fraud that could affect HUD, housing programs, or the housing market.

Additionally, the integrated ERM and EFRM department-wide activities include the incorporation of fraud into the reporting structures for the risk profiles, the specific request for fraud assessment as part of the overall ERM risk reporting structure, and continued risk culture activities, including recurring risk officer meetings attended by all major HUD components.

Through FY 2018, the CRO continued to work with OIG to support anti-fraud efforts, including piloting the Department of Treasury's DNP suite of services as part of HUD's disaster recovery efforts and coordinated interagency initiatives to share leading practices on fraud management and mitigation between HUD program offices, the HUD OIG, FEMA, Department of Treasury, and other stakeholders.

Critical to the success of the ERM program at HUD is the risk culture. In FY 2018, the CRO worked with HUD Executive Leadership to provide insight on the ERM program and help establish the "tone at the top" as well as continued briefings with program offices and C-suite areas on shared areas of risks and potential risk mitigation strategies. Job aids on how to incorporate the risk taxonomy, risk scoring, and risk reporting have been updated and distributed throughout HUD.

Last, the CRO will include ERM in draft governance processes by establishing policies and procedures constituting the agency's internal controls and ERM. The CRO and the HUD officers will develop appropriate and timely risk mitigation actions and related oversight to address issues on HUD's risk profile. These actions will develop and execute the ERM Program communication plan to ensure internal control considerations are understood and become standardized financial operations and a key part of decision-making. In adherence to GAO Green Book principles, the CRO Office is working with program offices to establish and maintain effective risk management internal control systems to design and implement a proactive and comprehensive ERM Program. The risk management internal control systems will help assess program and operational risks and developed mitigation strategies involving risk acceptance, reduction, transfer, and/or sharing and including effective and efficient internal control activities.

Reduce the Footprint

Since FY 2013, HUD has experienced space reductions at 30 of its field offices and headquarters satellite locations, and the closing of 19 of our smallest field offices that duplicate HUD services in states with at least one other larger office.

HUD continues to focus on its footprint reductions by examining its Field and National Capital portfolios. In FY 2017, HUD reduced its footprint an additional 28,896 square feet for a savings of $1.4 million. These actions have resulted in a total reduction of 264,813 usable square feet and an annual estimated rent cost avoidance of over $7.4 million since FY 2013.

A significant challenge for HUD is that many of the locations we occupy were designed when there was a far greater staffing level. HUD has engaged with the General Services Administration to develop strategies to relinquish space that is no longer needed in a marketable fashion, so the space can be removed from HUD's inventory.

HUD developed new design standards, and these became effective in March 2016. The standards will enable HUD to work toward a target of 175 usable square feet per person for its overall portfolio. HUD does not own or direct lease any of its locations.

Reduce the Footprint Policy Baseline Comparison (SF In Millions)			
	FY 2015 Baseline	**CY 2017**	**Change (FY 2015 Baseline-CY 2017)**
Square Footage	3,098,523	3,025,395	(73,128)

Reporting of O&M Cost – Owned and Direct Lease Buildings ($ In Millions)			
	FY 2015 Reported Cost	**CY 2017**	**Change (FY 2015 Baseline-CY 2017)**
Operation and Maintenance Costs	N/A	N/A	N/A

Civil Monetary Penalty Adjustment for Inflation

In compliance with the Federal Civil Penalties Inflation Adjustment Act of 1990, as amended, HUD has published in the Federal Register the adjustments for inflation of civil monetary penalties under its jurisdiction. The following table summarizes the current penalty levels, which were published in the Federal Register on July 16, 2018, with an effective date of August 15, 2018.

Statutory Authority	Penalty (Name or Description)	Year Penalty Enacted	Latest Year of adjustment	Current Penalty Level	Location for Penalty Update Details
31 U.S.C. §3802(a)(1)	False Claims & Statements	1986	2018	$11,181	83 Fed. Reg. 32790 (July 16, 2018)
42 U.S.C. §3537a(c)	Advance Disclosure of Funding.	1989	2018	$19,639	83 Fed. Reg. 32790 (July 16, 2018)
42 U.S.C. §3537a(c)	Disclosure of Subsidy Layering	1989	2018	$19,639	83 Fed. Reg. 32790 (July 16, 2018)
12 U.S.C. §1735f–14(a)(2)	FHA Mortgagees and Lenders Violations	1989	2018	Per Violation: $9,819 Per Year: $1,963,870	83 Fed. Reg. 32790 (July 16, 2018)
12 U.S.C. v1735f–14(a)(2)	Other FHA Participants Violations	1997	2018	Per Violation: $9,819 Per Year: $1,963,870	83 Fed. Reg. 32790 (July 16, 2018)
12 U.S.C. §1715z–13a(g)(2)	Indian Loan Mortgagees Violations	1992	2018	Per Violation: $9,819 Per Year: $1,963,870	83 Fed. Reg. 32790 (July 16, 2018)
12 U.S.C. §1735f–15(c)(2)	Multifamily & Section 202 or 811 Owners Violations.	1989	2018	$49,096	83 Fed. Reg. 32790 (July 16, 2018)
12 U.S.C. §1723i(b)	Ginnie Mae Issuers & Custodians Violations	1989	2018	Per Violation: $9,819 Per Year: $1,963,870	83 Fed. Reg. 32790 (July 16, 2018)
12 U.S.C. §1703	Title I Broker & Dealers Violations.	1989	2018	Per Violation: $9,819 Per Year: $1,963,870	83 Fed. Reg. 32790 (July 16, 2018)
42 U.S.C. §4852d(b)(1)	Lead Disclosure Violation	1992	2018	$17,395	83 Fed. Reg. 32790 (July 16, 2018)
42 U.S.C. §1437z–1(b)(2)	Section 8 Owners Violations	1997	2018	$38,159	83 Fed. Reg. 32790 (July 16, 2018)
31 U.S.C. §1352	Lobbying Violation	1989	2018	Min: $19,639 Max: $196,387	83 Fed. Reg. 32790 (July 16, 2018)
42 U.S.C. §3612(g)(3)	Fair Housing Act Civil Penalties	1988	2018	No Priors: $20,521 One Prior: $51,302 Two or More Priors: $102,606	83 Fed. Reg. 32790 (July 16, 2018)
42 U.S.C. §5410	Manufactured Housing Regulations Violation	1974	2018	Per Violation: $2,852 Per Year: $3,565,045	83 Fed. Reg. 32790 (July 16, 2018)

Grants Oversight & New Efficiency (GONE) Act Requirements

Federal Grant and Cooperative Agreement Awards and Balances Reportable Under the GONE Act				
Category	**2-3 Years**	**>3-5 Years**	**>5 Years**	**Total**
Number of Grants & Cooperative Agreements with Zero Dollar Balances	184	159	4	347
Number of Grants & Cooperative Agreements with Undisbursed Balances	106	0	4	110
Total Amount of Undisbursed Balances	$5,415,755	$0	$44,240	$5,459,995

HUD's working group worked with program office staff to close over 125,000 GONE Act reportable awards. At the request of the working group, program offices also identified 57,000 awards that were wrongly reported in November 2017.

The work group found three primary factors contributing to grants reported under GONE Act requirements: 1) grants were administratively closed but the close out information was not transmitted to the financial or payment systems; 2) the payment system had incorrect period of performance data leading many records to be reported in error; and 3) zero balance awards did not appear on year-end reports of open awards so program offices did not send notification of closeout to OCFO.

HUD OCFO reviewed closeout procedures to understand why grants were not consistently closed out in the past and is finalizing updated procedures to ensure awards are closed within guidelines in the future. Program Office staff have also worked to implement streamlined procedures better to ensure timely closeout of awards.

Secretary's Audit Resolution Report to Congress

This information on the HUD's audit resolution and follow-up activity covers the period October 1, 2017, through September 30, 2018. It is required by Section 106 of the Inspector General Act Amendments (Public Law 100-504), and provides information on the status of audit recommendations with management decisions, but no final action. The report also furnishes statistics for FY 2018 on the total number of audit reports and dollar value for both disallowed costs and for recommendations that funds be put to better use.

Audit Resolution Highlights

Overall HUD achieved 723 approved management decisions and successfully implemented 805 recommendations. The Department also made good progress in reducing its inventory of potential significantly overdue final actions, which are those recommendations which could potentially be significantly overdue on September 30, 2018. This inventory was successfully addressed, and the Department resolved 192 recommendations in this category, which was a reduction of 36%.

Please note that the Inspector General Act requires reporting at the audit report level versus the individual recommendation level. At the audit report level, total disallowed costs in the report are reported as open until all recommendations in a report are closed.

Summary of Management Decisions on Audit Recommendations	
Opening Inventory Requiring Decisions	458
New Audit Recommendations Requiring Decisions	693
Management Decisions Made[91]	(723)
Audit Recommendations Still Requiring Decisions[92]	428
Recommendations Beyond Statutory Resolution Period[93]	47

[91] Management decisions were made on a total of 723 recommendations (115 audits of which 61 had final management decisions). Of these, 413 recommendations were in the opening inventory.
[92] This reporting period ended with 428 recommendations without management decisions. Of these, 47 recommendations are over six months old.
[93] Ibid.

Summary of Recommendations With Management Decisions And No Final Action	
Opening Inventory – Final Actions Pending[94]	1,775
Management Decisions Made During Report Period	723
Sub-Total Final Actions Pending	2,498
Final Actions Taken[95]	(805)
Audit Recommendations Reopened During Period (Without Final Actions)	0
Total Audit Recommendations Still Requiring Final Actions[96]	1,693

Summary of Recommendations With Management Decisions And No Final Action		
Audit Reports	**Number of Audit Reports**	**Questioned Costs (In Dollars)**
A. Audit Reports with management decisions on which final action had not been taken at the beginning of the period[97]	366	$3,591,295,498
B. Audit Reports on which management decisions were made during the period	68	$242,200,277
C. Total audit reports pending final action during period (total of A and B)	434	$3,833,495,775
D. Audit Reports on which final action was taken during the period		
1. Recoveries[98]	57	$167,714,983
(a) Collections and offsets	56	$165,995,597
(b) Property	0	$0
(c) Other	7	$1,719,386
2. Write-offs	38	$62,056,884
3. Total of 1 and 2[99]	66	$229,771,867
E. Audit Reports needing final action at the end of the period (subtract D3 from C)[100]	368	$3,603,723,908
F. Open recommendations with disallowed costs[101]	807	$4,461,516,542

[94] Opening inventory reflects 12 retroactive entries.
[95] Final Action was taken on a total of 891 recommendations (244 audits of which 108 had final actions taken, thus closing the audits). The number of recommendations where a management decision and final action were concurrent was 297 in 132 audits.
[96] Of the 272 audits remaining, 44.12% or 120 are under repayment plans.
[97] This figure was adjusted to reflect seven retroactive entries.
[98] Audit Reports are duplicated in D.1.(a), D.1.(b) and D.1.(c); thus the total is reduced by six.
[99] Audit Reports are duplicated in both D.1 and D.2; thus the total is reduced by 29.
[100] Litigation, legislation or investigation is pending for 72 audit reports with costs totaling $271,022,411
[101] Figures in brackets represent data at the recommendation level as compared to the audit level as described in E.

Management Report on Final Action On Audits With Recommendations That Funds Be Put To Better Use		
Audit Reports	**Number of Audit Reports**	**Funds to be put to Better Use (In Dollars)**
A. Audit Reports with management decisions on which final action had not been taken at the beginning of the period.[102]	198	$7,972,593,696
B. Audit Reports on which management decisions were made during the period.	46	$2,653,236,971
C. Total audit reports pending final action during period (total of A and B)	244	$10,625,830,667
D. Audit Reports on which final action was taken during the period		
1. Value of Audit Reports implemented (completed)	31	$250,362,151
2. Value of Audit Reports that management concluded should not or could not be implemented	6	$10,366,398
3. Total of 1 and 2[103]	35	$260,728,549
E. Audit Reports needing final action at the end of the period (subtract D3 from C)[104]	209	$10,365,102,118
F. Open recommendations with funds put to better use[105]	184	$9,090,811,841

[102] This figure has been adjusted to reflect two retroactive entries.
[103] Audit Reports are duplicated in both D.1 and D.2; thus the total is reduced by two.
[104] Litigation, legislation, or investigation is pending for 31 Audit Reports with costs totaling $1,627,619,805.
[105] Figures in brackets represent data at the recommendation level as compared to the audit level as described in E.

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Section 4
Appendices

Glossary of Acronyms and Abbreviations

ADA	Anti-Deficiency Act (Public Law No. 97–258)
ACH	Automated Clearing House
AFR	Agency Financial Report
AFS	Allowance for Subsidy
AHAR	Annual Homeless Assessment Report
AIDS	Acquired Immune Deficiency Syndrome
AIR	Agency Insight Report
ALLL	Allowance for Loan and Lease Losses
APG	Agency Priority Goal
APR	Annual Performance Report
ARC	Administrative Resources Center
ARCATS	Audit Resolution and Corrective Action Tracking System
ARS	Accounts Receivable Subsystem
ASC	Accounting Standards Codification
AWG	Administrative Wage Garnishment
AWITF	Agency-wide Integrity Task Force
BA	Budget Authority
BFF	Budget Formulation and Forecasting
BFS	Bureau of the Fiscal Service
BPD	Bureau of the Public Debt
BRE	Book-Rich Environment Initiative
CAIVRS	Credit Alert Verification Reporting System
CBS	Consolidated Balance Sheet
CCB	Change Control Board
CDBG	Community Development Block Grant
CDBG-DR	Community Development Block Grant Disaster Recovery
CDM	Continuous Diagnostics and Mitigation
CFO	Chief Financial Officer
CFR	Code of Federal Regulations
CGE	Concur Government Edition
CIO	Chief Information Officer
CIRT	Computer Incident Response Team
CISO	Chief Information Security Officer
CM	Continuous Monitoring
CMA	Computer Matching Agreement
CMHI	Cooperative Management Housing Insurance
CMIA	Cash Management Improvement Act of 1990
CNA	Capital Needs Assessment
CNA	Comprehensive Needs Assessment
CoC	Continuum of Care
COCC	Central Office Cost Centers
COS	Contract Oversight Specialist
COR	Contracting Officer's Representative
COTS	Commercial off the Shelf
CPD	Office of Community Planning and Development
CRO	Chief Risk Officer
CSAM	Cyber Security Assessment & Management
CSRS	Civil Service Retirement System
CWCOT	Claims Without Conveyance of Title
CY	Calendar Year
DASP	Distressed Asset Stabilization Program
DATA Act	Digital Accountability and Transparency Act of 2014
DCAMS	Debt Collection Asset Management System
DCIA	Debt Collection Improvement Act
DHS	U.S Department of Homeland Security
DHHL	Department of Hawaiian Home Lands
DOD	U.S. Department of Defense
DOE	U.S. Department of Energy
DOJ	U.S. Department of Justice
DOL	U.S. Department of Labor
DLP	Data Loss Prevention
DMF	Death Master File
DNP	Do Not Pay
DRAA	Disaster Relief Appropriations Act
DRGR	Disaster Recovery Grant Reporting
DRIG	Disaster Recovery Information Guide
DRSI	Disaster Recovery Special Issues
DSRS	Distributive Shares and Refund System
ED	U.S. Department of Education
EEM	Energy Efficient Mortgage
EHLP	Emergency Homeowner's Loan Program
EIV	Enterprise Income Verification System
ELOCCS	Electronic Line of Credit Control System
eLOCCS	Electronic Line of Credit Control System
eSNAPS	Electronic Special Needs Assistance Programs
EPA	Environmental Protection Agency
ENW	Economic Net Worth
EPIC	Energy and Performance Information Center
EPLS	Excluded Parties List System

EPPES	Employee Performance Planning and Evaluation System
ERM	Enterprise Risk Management
ERO	Ginnie Mae's Office of Enterprise Risk
ERP	Enterprise Resource Planning
ESG	Emergency Solutions Grants
FACD	Financial Analysis and Control Divison
FAFSA	Free Application for Federal Student Aid
FAMES	Federal Asset Management Enterprise System
FAPIIS	Federal Awardee Performance and Integrity Information System
FASAB	Federal Accounting Standards Advisory Board
FASB	Financial Accounting Standards Board
FASS	Financial Assessment Subsystem
FCRA	Federal Credit Reform Act of 1990
FECA	Federal Employee Compensation Act of 1916
FERS	Federal Employees Retirement System
FERA	Front End Risk Assessment
FFATA	Federal Funding Accountability and Transparency Act of 2006
FFB	Federal Financing Bank
FFMIA	Federal Financial Management Improvement Act
FHA	Federal Housing Administration
FHA-HAMP	FHA's Home Affordable Modification Program
FHAP	Fair Housing Assistance Program
FHASL	Federal Housing Administration Subsidiary Ledger
FHEO	Office of Fair Housing and Equal Opportunity
FHIP	Fair Housing Initiatives Program
FIFO	First-in, First-out
FIRMS	Facilities Integrated Resources Management System
FISMA	Federal Information Security Management Act
FLRA	Federal Labor Relations Authority
FMCS	Federal Mediation and Conciliation Service
FMFIA	Federal Managers' Financial Integrity Act (Public Law No. 97-255)
FMC	Financial Management Center
FN	Financial Notes
FOC	Financial Operation Center
FR	Federal Register
FS	Financial Statements
FSA	Federal Student Aid
FSSP	Federal Shared Service Provider
FRDAA	Fraud Reduction and Data Analytics Act of 2015
FY	Fiscal Year
FYE	Fiscal Year End
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
GEAR	Goals-Engagement-Accountability-Results
GFAS	Ginnie Mae Financial Accounting System
GI	General Insurance
Ginnie Mae	Government National Mortgage Association
GLR	Campaign for Grade Level Reading
GL	General Ledger
GNMA	Government National Mortgage Association
GSA	General Services Administration
H4H	HOPE for Homeowners
HAMP	Home Affordable Modification Program
HAP	Housing Assistance Payment
HCAAF	Human Capital Assessment and Accountability Framework
HCFSS	HUD Consolidated Financial Statement System
HCV	Housing Choice Voucher
HEARTH Act	Homeless Emergency Assistance and Rapid Transition to Housing Act
HEAT	HUD Enterprise and Architectural Transformation
HECM	Home Equity Conversion Mortgage
HEROS	HUD's Environmental Review Online System
HFS	Held For Sale
HFA	Housing Finance Authorities
HFI	Held for Investment
HHGMS	Healthy Homes Grants Management System
HIAMS	HUD Integrated Acquisition Management System
HIFMIP	HUD Integrated Financial Management Improvement Project
HIV	Human Immunodeficiency Virus
HMIS	Homeless Management Information Systems
HOME	HOME Investment Partnerships Program
HOPE VI	Program for Revitalization of Severely Distressed Public Housing
HOPWA	Housing Opportunities for Persons with AIDS
HPS	HUD Procurement System
HQ	Headquarters
HQS	Housing Quality Standard
HR	Human Resources

HUD	U.S. Department of Housing and Urban Development
HUDCAPS	HUD's Central Accounting and Program System
HUD-VASH	HUD-VA Supportive Housing
IAA	Inter-Agency Agreement
IAS	Inventory of Automated Systems
ICDBG	Indian Community Development Block Grant
ICOFR	Internal Controls Over Financial Reporting
IDIS	Integrated Disbursement and Information System
IG	Inspector General
IHA	Indian Housing Authority
IHBG	Indian Housing Block Grant
IP	Improper Payment
IPA	Initial Privacy Assessment
IPA	Intergovernmental Personnel Act of 1970 (Public Law 91-648)
IPAC	Intra-Government Payment and Collection
IPERA	Improper Payments Elimination and Recovery Act
IPERIA	Improper Payments Elimination and Recovery Improvement Act
IPIA	Improper Payments Information Act of 2002
IPP	Invoice Processing Platform
IPT	Integrated Project Team
iREMS	Integrated Real Estate Management System
IRS	Internal Revenue Service
ISCM	Information Security Continuous Monitoring
iSERS	integrated Subsidy Reporting System
IT	Information Technology
IUS	Internal Use Software
IVT	Income Verification Tool
JFMIP	Joint Financial Management Improvement Program
LGBTQ	Lesbian/Gay/Bisexual/Transgender/Queer
LEED	Leadership in Energy and Environmental Design
LIHTC	Low-Income Housing Tax Credit
LOCCS	Line of Credit Control System
LLG	Liability for Loan Guarantees
LLR	Loan Loss Reserve
LRS	Loan Review System
LSAs	Local Security Administrators
LSHR	Lead Safe Housing Rule
MBS	Mortgage Backed Securities
MCA	Maximum Claim Amount
MFH	Multifamily Housing
MFIC	Multi-Family Insurance Claims
MI	Mortgage Insurance
moveLINQ	moveLINQ Relocation Management Software
MMI	Mutual Mortgage Insurance
MMS	Manager Self-Service
MNA	Mortgage Note Assigned
Mod Rehab	Moderate Rehabilitation
MOU	Memorandum of Understanding
MSS	Master Sub-servicer
MTW	Moving-to-Work
NAHA	National Affordable Housing Act of 1990
NAPA	National Academy of Public Administration
NC	Non-Compliance
NCATS	National Cybersecurity Assessment and Technical Services
NCIS	New Core Interface Solution
NCWIT	National Center for Women and Technology
NDNH	National Directory of New Hires
New Core	New Core project
NFC	National Finance Center
NFHTA	National Fair Housing Training Academy
NGMS	Next Generation Management System
NHHBG	Native Hawaiian Housing Block Grant
NIST	National Institute of Standards
NOFA	Notice of Funding Availability
NRA	Net Restricted Assets
NDRC	National Disaster Resilience Competition
NSP	Neighborhood Stabilization Program
NSP1	Neighborhood Stabilization Program 1
NSP2	Neighborhood Stabilization Program 2
NSP3	Neighborhood Stabilization Program 3
NSP TA	Neighborhood Stabilization Program Technical Assistance
OA	Office of Administration
OA	Occupancy Agreements
O/A	Owner of Management Agents
OBIEE	Oracle Business Intelligence Enterprise Edition
OCFO	Office of the Chief Financial Officer
OCHCO	Office of the Chief Human Capital Officer
OCIO	Office of the Chief Information Officer
OCPO	Office of the Chief Procurement Officer
OE	Office of Evaluation
OER	Ginnie Mae's Office of Enterprise Risk
OGC	Office of General Council

OHVP	Office of Housing Voucher Program
OIG	Office of Inspector General
OITS	Office of IT Security
OLG	Office of Loan Guarantee
OLHCHH	Office of Lead Hazard Control and Healthy Homes
OMB	Office of Management and Budget
ONAP	Office of Native American Programs
OneCPD	OneCPD Integrated Practitioner Assistance System
OPEB	Other Post-Employment Benefits
OPHVP	Office of Public Housing Voucher Program
OPM	Office of Personnel Management
ORB	Other Retirement Benefits
OSPM	Office of Strategic Planning and Management
PAE	Participating Administrative Entity
PACE	Property Assessed Clean Energy
PAS	Program Accounting Systems
PBRA	Project-Based Rental Assistance
PBRD	Payroll, Benefits, and Retirement Division
PBV	Project-Based Vouchers
PD&R	Office of Policy Development and Research
PFS	Pay for Success
PH	Public Housing
PH Capital Fund	Public Housing Capital Fund
PHA	Public Housing Authority
P&I	Principal and Interest
PIC	PIH Information Center
PIH	Office of Public and Indian Housing
PIT	Point-in-Time
PIV	Personal Identity Verification
P.L.	Public Law
PLSA	Primary Local Security Administrator
PMM	Purchase Money Mortgages
PNA	Physical Needs Assessment
POA&M	Plan of Action & Milestones
POST	Public and Indian Housing One-Stop Tool
PPA	Prompt Payment Act (Public Law No. 97-177)
PP&E	Property, Plant, and Equipment
PPM	Project Portfolio Management
PRA	Paperwork Reduction Act
PRISM	Federal acquisition system used by ARC
PY	Previous Year
Q1	Quarter 1
Q3	Quarter 3
Q4	Quarter 4
QAD	Quality Assurance Division
QC	Quality Control
QMR	Quarterly Management Reviews
RA	Risk Assessment
RAD	Rental Assistance Demonstration
RAP	Rental Assistance Payment
RBD	Rebuild by Design
Recovery Act	American Recovery and Reinvestment Act of 2009
REMIC	Real Estate Mortgage Investment Conduits
Rent Supp	Rental Supplement
RHAP	Rental Housing Assistance Programs
RHEI	Road Home Elevation Incentive
RHYMIS	Runaway and Homeless Youth Management Information Systems
RIF	Rural Innovation Fund
RLF	Revolving Loan Fund
RMF	Risk Management Framework
RNP	Restricted Net Position
ROA	Return on Assets
RSSI	Required Supplementary Stewardship Information
SAM	System for Award Management
SAMS	Single Family Acquired Asset Management System
SAFMR	Small Area Fair Market Rent
SBR	Statement of Budgetary Resources
SCNP	Statement of Changes in Net Position
SD	Significant Deficiency
SDLC	System Development Life Cycle
S&E	Salary and Expense
SEMAP	Section 8 Management Assessment Program
SES	Senior Executive Service
SER	Single Effective Rate
SF	Single Family
SFCB	Single Family Claims Branch
SFDW	Single Family Data Warehouse
SFFAS	Statements of Federal Financial Accounting Standards
SFIS	Single-Family Insurance System
SFTP	Secure File Transfer Protocol
SHP	Supportive Housing Program
SMART	Single Family Mortgage Notes Recovery Technology System
SNAPS	Special Needs Assistance Programs
SNC	Statement of Net Cost

SOAR	Students + Opportunities + Achievements = Results
SP	Special Publication
SPS	Small Purchase System
SRI	Special Risk Insurance
SSA	Social Security Administration
SSP	Shared Service Provider
SSN	Social Security Number
SSVF	Supportive Services for Veteran Families
STEM	Science, Technology, Engineering, and Math
TA	Technical Assistance
TAFS	Treasury Account Fund Symbols
TBRA	Tenant-Based Rental Assistance
TDHE	Tribally Designated Housing Entity
TE	Tax Exempt
TEAM	Total Estimated and Allocation Mechanism
TI	Transformation Initiatives
TOP	Treasury Offset Program
TPV	Tenant Protection Voucher
TR	Technical Release
TRACS	Tenant Rental Assistance Certification System
Treasury	U.S. Department of the Treasury
UPB	Unpaid Principal Balance
UPCS-V	Uniform Physical Condition Standards for Voucher Programs
U.S.	United States of America
U.S.C.	United States Code
USDA	U.S. Department of Agriculture
USICH	United States Interagency Council on Homelessness
USSGL	U.S. Standard General Ledger
VA	U.S. Department of Veterans Affairs
VAMC	VA Medical Center
VMS	Voucher Management System
WebTA	HUD's Time and Attendance System
WASS	Web Access Secure System
WCF	Working Capital Fund

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Housing Choice Voucher

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Lead Disclosure Rule for pre-1978 homes

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Community Planning and Development

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HUD's FY 2018-2022 Strategic Plan

HUD's FY 2015 Annual Performance Report & FY 2017 Annual Performance Plan

HUD Webcasts

Online Library

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EQUAL HOUSING OPPORTUNITY

OPEN GOV

Performance.gov

MAKING HOME AFFORDABLE.gov

DATA.GOV

USA SPENDING.GOV

If you have any questions or comments, please contact
the Office of the Chief Financial Officer at 202-708-1946.

Written comments or suggestions for improving this
report may be submitted by mail to:

U.S. Department of Housing
and Urban Development
451 7th St. SW, Room 3126
Washington, DC 20410
Attention: Chief Financial Officer

Or by e-mail to AgencyFinancialReport@HUD.gov

To view the report on the internet, go to the following website:
https://www.hud.gov/sites/dfiles/CFO/documents/afr2018.pdf

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https://www.hud.gov/sites/dfiles/CFO/documents/afr2018.pdf

U.S. Department of Housing and Urban Development