



OFFICE *of*
INSPECTOR GENERAL
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UNITED STATES DEPARTMENT OF
HOUSING AND URBAN DEVELOPMENT

Audit of Government National Mortgage Association's Fiscal Years 2023 and 2022 Financial Statements

Audit Report Number: 2024-FO-0001

November 13, 2023

Date: November 13, 2023

To: Alanna McCargo
President, Government National Mortgage Association, T

//signed//

From: Kilah S. White
Assistant Inspector General for Audit, GA

Subject: Transmittal of Independent Public Accountant's Audit Report on the Government National Mortgage Association's Fiscal Years 2023 and 2022 Financial Statements


Attached are the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) results of the audit of the Government National Mortgage Association's (Ginnie Mae) fiscal years 2023 and 2022 financial statements and reports on internal control over financial reporting and compliance with laws, regulations, contracts, and grant agreements and other matters.

We contracted with the independent public accounting firm of CliftonLarsonAllen LLP (CLA) to audit the financial statements of Ginnie Mae as of and for the fiscal years ended September 30, 2023 and 2022, and to provide reports on Ginnie Mae's (1) internal control over financial reporting and (2) compliance with laws, regulations, contracts, and grant agreements and other matters. Our contract with CLA required that the audit be performed in accordance with U.S. generally accepted government auditing standards, Office of Management and Budget audit requirements, and the Financial Audit Manual of the U.S. Government Accountability Office and the Council of the Inspectors General on Integrity and Efficiency.

In its audit of Ginnie Mae, CLA reported

- That Ginnie Mae's financial statements as of and for the fiscal years ended September 30, 2023 and 2022, were presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles.
- No material weaknesses or significant deficiencies¹ for fiscal year 2023 in internal control over financial reporting, based on limited procedures performed.
- No reportable noncompliance issues for fiscal year 2023 with provisions of applicable laws, regulations, contracts, and grant agreements or other matters.

¹ A material weakness is a deficiency or a combination of deficiencies in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of Ginnie Mae's financial statements will not be prevented or detected and corrected on a timely basis. 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.



In connection with the contract, we reviewed CLA's reports and related documentation and questioned its representatives. Our review, as differentiated from an audit of the financial statements in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express and we do not express opinions on Ginnie Mae's financial statements or conclusions about (1) the effectiveness of Ginnie Mae's internal control over financial reporting and (2) Ginnie Mae's compliance with laws, regulations, contracts, and grant agreements or other matters. CLA is responsible for the attached Independent Auditors' Report, dated November 13, 2023, and the conclusions expressed therein. Our review disclosed no instances in which CLA did not comply, in all material respects, with U.S. generally accepted government auditing standards.

The Inspector General Act, as amended, requires that OIG post its reports on the OIG website. Accordingly, this report will be posted at <https://www.hudoig.gov>.

If you have any questions or comments about this report, please call Brittany Wing, Audit Director, at (202) 320-7296.



Independent Auditors' Report

Inspector General
U.S. Department of Housing and Urban Development

President
Government National Mortgage Association

In our audits of the fiscal years 2023 and 2022 financial statements of the Government National Mortgage Association (Ginnie Mae), we found:

- Ginnie Mae's financial statements as of and for the fiscal years ended September 30, 2023, and 2022, are presented fairly, in all material respects, in accordance with United States of America (U.S.) generally accepted accounting principles;
- no material weaknesses for fiscal year (FY) 2023 in internal control over financial reporting based on the limited procedures we performed; and
- no reportable noncompliance for FY 2023 with provisions of applicable laws, regulations, contracts, and grant agreements we tested and no other matters.

The following sections discuss in more detail (1) our report on the financial statements, which includes required supplementary information (RSI)¹ and other information² included in the Annual Report; (2) our report on internal control over financial reporting; (3) our report on compliance with laws, regulations, contracts, and grant agreements and other matters; and (4) Ginnie Mae's response to our audit report.

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Ginnie Mae, which comprise the balance sheets as of September 30, 2023, and 2022; the related statements of revenues and expenses and changes in investment of U.S. Government, and cash flows for the fiscal years then ended; and the related notes to the financial statements.

In our opinion, Ginnie Mae's financial statements referred to above present fairly, in all material respects, Ginnie Mae's financial position as of September 30, 2023, and 2022, and its revenues and expenses and changes in investment of U.S. Government, and cash flows for the fiscal years then ended in accordance with U.S. generally accepted accounting principles.

¹ The RSI consists of "Management's Discussion and Analysis" which are included with the financial statements.

² Other information consists of information included with the financial statements, other than the RSI and the auditors' report.

INDEPENDENT AUDITORS' REPORT (Continued)

Basis for Opinion

We conducted our audits in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*); and Office of Management and Budget (OMB) Bulletin No. 24-01, *Audit Requirements for Federal Financial Statements* (OMB Bulletin 24-01) guidance. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Ginnie Mae and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for (1) the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles; (2) preparing, measuring, and presenting the RSI in accordance with U.S. generally accepted accounting principles; (3) preparing and presenting other information included in the annual report, and ensuring the consistency of that information with the audited financial statements and the RSI; and (4) designing, implementing, and maintaining effective internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Ginnie Mae's ability to continue as a going concern for a reasonable period of time.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to (1) obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and (2) issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit of the financial statements conducted in accordance with *Government Auditing Standards* will always detect a material misstatement or a material weakness when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered to be material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to our audit of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Ginnie Mae's internal control over financial reporting. Accordingly, no such opinion is expressed.

INDEPENDENT AUDITORS' REPORT (Continued)

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Perform other procedures we consider necessary in the circumstances.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Ginnie Mae's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the financial statement audit.

Required Supplementary Information

OMB Bulletin 24-01 requires that the RSI be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the financial statements, is required by OMB, which considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context.

We have applied certain limited procedures to the RSI in accordance with *Government Auditing Standards*. These procedures consisted of (1) inquiring of management about the methods used to prepare the RSI and (2) comparing the RSI for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during the audits of the financial statements, in order to report omissions or material departures from OMB guidelines, if any, identified by these limited procedures. We did not audit, and we do not express an opinion or provide any assurance on the RSI because the limited procedures we applied do not provide sufficient evidence to express an opinion or provide any assurance.

Other Information

Ginnie Mae's other information contains 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. Management is responsible for the other information included in the annual report. The other information does not include the financial statements and our auditors' report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audits of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

INDEPENDENT AUDITORS' REPORT (Continued)

Report on Internal Control over Financial Reporting

In connection with our audits of Ginnie Mae's financial statements, we considered Ginnie Mae's internal control over financial reporting, consistent with our auditors' responsibilities discussed below.

Results of Our Consideration of Internal Control over Financial Reporting

Our consideration of internal control was for the limited purpose described below and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies or to express an opinion on the effectiveness of Ginnie Mae's internal control over financial reporting. Given these limitations, during our FY 2023 audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

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 deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that even if the control operates as designed the control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or competence to perform the control effectively. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control over financial reporting, 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. 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.

During our 2023 audit, we identified deficiencies in Ginnie Mae's internal control over financial reporting that we do not consider to be material weaknesses or significant deficiencies. Nonetheless, these deficiencies warrant Ginnie Mae management's attention. We have communicated these matters to Ginnie Mae management and, where appropriate, will report on them separately.

Basis for Results of Our Consideration of Internal Control over Financial Reporting

We performed our procedures related to Ginnie Mae's internal control over financial reporting in accordance with *Government Auditing Standards* and OMB audit guidance.

Responsibilities of Management for Internal Control over Financial Reporting

Ginnie Mae management is responsible for (1) designing, implementing, and maintaining effective internal control over financial reporting relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; (2) evaluating the effectiveness of internal control over financial reporting based on the criteria established under 31 U.S.C. § 3512 (c), (d) (commonly known as the Federal Managers' Financial Integrity Act (FMFIA)); and (3) providing an assurance statement on the overall effectiveness of internal control over financial reporting included in management's discussion and analysis (MD&A).

INDEPENDENT AUDITORS' REPORT (Continued)

Auditors' Responsibilities for the Consideration of Internal Control over Financial Reporting

In planning and performing our audit of Ginnie Mae's financial statements as of and for the fiscal year ended September 30, 2023, in accordance with *Government Auditing Standards*, we considered Ginnie Mae's internal control relevant to the financial statement audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Ginnie Mae's internal control over financial reporting or on management's assurance statement on the overall effectiveness on internal control over financial reporting. Accordingly, we do not express an opinion on Ginnie Mae's internal control over financial reporting or on management's assurance statement on the overall effectiveness of internal control over financial reporting. We are required to report all deficiencies that are considered to be material weaknesses or significant deficiencies. We did not consider or evaluate all internal controls relevant to operating objectives as broadly established by the FMFIA, 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 internal control over financial reporting 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. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition, and (2) 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.

Purpose of Report on Internal Control over Financial Reporting

The purpose of this report is solely to describe the scope of our consideration of Ginnie Mae's internal control over financial reporting and the results of our procedures, and not to provide an opinion on the effectiveness of Ginnie Mae's internal control over financial reporting. This report is an integral part of an audit performed in accordance with *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.

Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements and Other Matters

In connection with our audits of Ginnie Mae's financial statements, we tested compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements consistent with our auditors' responsibilities discussed below.

Results of Our Tests for Compliance with Laws, Regulations, Contracts, and Grant Agreements and Other Matters

Our tests for compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements disclosed no instances of noncompliance or other matters for FY 2023 that would be reportable under *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 Ginnie Mae. Accordingly, we do not express such an opinion.

INDEPENDENT AUDITORS' REPORT (Continued)

Basis for Results of Our Tests for Compliance with Laws, Regulations, Contracts, and Grant Agreements and Other Matters

We performed our tests of compliance in accordance with *Government Auditing Standards*.

Responsibilities of Management for Compliance with Laws, Regulations, Contracts, and Grant Agreements

Ginnie Mae management is responsible for complying with laws, regulations, contracts, and grant agreements applicable to Ginnie Mae.

Auditors' Responsibilities for Tests for Compliance with Laws, Regulations, Contracts, and Grant Agreements

Our responsibility is to test compliance with selected provisions of laws, regulations, contracts, and grant agreements applicable to Ginnie Mae that have a direct effect on the determination of material amounts and disclosures in Ginnie Mae's financial statements, and to perform certain other limited procedures. Accordingly, we did not test compliance with all provisions of laws, regulations, contracts, and grant agreements applicable to Ginnie Mae. We caution that noncompliance may occur and not be detected by these tests.

Purpose of Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements and Other Matters

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 *Government Auditing Standards* in considering compliance. Accordingly, this report on compliance with laws, regulations, contracts, and grant agreements and other matters is not suitable for any other purpose.

Ginnie Mae's Response to our Audit Report

Government Auditing Standards requires the auditor to perform limited procedures on Ginnie Mae's response to our report. Ginnie Mae's response was not subjected to the auditing procedures applied in the audits of the financial statements, and accordingly, we express no opinion on the response. The complete text of Ginnie Mae's response is reprinted in Exhibit A.

CliftonLarsonAllen LLP



Greenbelt, MD
November 13, 2023

EXHIBIT A

Ginnie Mae's Response to the Audit Report

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Office of the President
425 3rd Street, SW, Fifth Floor
Washington, DC 20024
(202) 708-0926

DATE: November 8, 2023

MEMORANDUM FOR: Brittany Wing, Director, Contracted Financial Statement Audits,
Financial Audits Division, HUD Office of Inspector General (OIG)

FROM: Alanna McCargo, President, Government National Mortgage
Association (Ginnie Mae)

SUBJECT: Management Response to Fiscal Year (FY) 2023 Audit Report

DocuSigned by:
Alanna McCargo
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Ginnie Mae values the opportunity to respond to the Independent Auditors' Report for FY 2023. The audit was professionally conducted by CliftonLarsonAllen (CLA) for the OIG, and we value the role that they play on behalf of the American taxpayer, providing oversight and transparency over our financial reporting, impacting various stakeholders, including investors, borrowers, and the capital markets.

This year's audit resulted in an unmodified audit opinion, which Ginnie Mae is particularly proud of in light of the significant investment in our financial reporting function and previous efforts on audit remediation that have resulted in a strong internal control environment. The results of this audit are integral to maintaining the integrity of our guarantee and the role that Ginnie Mae plays in the capital markets.

Our nation continued to experience a challenging economy, characterized by inflationary pressures and rising interest rates, leading to a turbulent housing market and significant operational challenges that Ginnie Mae faced, including the extinguishment of a defaulted Home Equity Conversion Mortgage (HECM) Mortgage-Backed Security (HMBS) issuer and the onboarding of its portfolio of more than \$20 billion. The onboarding of the defaulted issuer's portfolio was a multidimensional effort demonstrating operational and financial reporting readiness and Ginnie Mae's strong internal control environment. Our timely communication and successful collaboration across the organization, including HUD and OIG, resulted in the seamless onboarding of over 115,000 loans.

We are proud of the financial results and program-level achievements in FY 2023. Our Results of Operations were \$938 million, and MBS issuances of over \$400 billion increased the total value of Ginnie Mae's MBS portfolio to nearly \$2.5 trillion. We also engaged in a variety of undertakings and partnerships to enhance our program, and further access of underserved borrowers to affordable credit and housing. We explored expanding access to our MBS platform by strengthening partnerships with the Federal Home Loan Banks (FHLBanks), Community Development Financial Institutions (CDFIs), credit unions, and other state level financial institutions. We implemented new financial eligibility requirements developed alongside the Federal Housing Finance Agency (FHFA) to promote issuer resilience through challenging economic cycles. We also expanded our Environmental, Social and Governance (ESG) product

EXHIBIT A

Ginnie Mae's Response to the Audit Report

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offerings through enhanced disclosures and the roll-out of social bond language in our single-family Mortgage-Backed Securities prospectuses, with the goal of generating greater investor demand for securities supporting ESG objectives.

We remain dedicated to our core mission of expanding access to affordable credit and housing for underserved Americans by bringing global capital into the housing finance market while minimizing risk to the taxpayer and we will continue to make investments in technology to advance our strategic goals. The most prominent of these investments is our long-term commitment to rebuild the MBS securitization platform to take advantage of the possibilities offered by present-day technology. In FY 2023, we finalized our migration of Ginnie Mae's applications to the cloud and continued to expand access to our Digital Collateral Program to eligible issuers. These efforts position the MBS program/platform for long-term success by adding value for issuers and investors, expanding the ways Ginnie Mae fulfills its mission, and improving overall program resilience and security.

Striving for operational excellence and staying committed to our mission, while maintaining a strong focus on financial reporting, is an utmost priority. The results of the financial statement audit are an integral part of our operations, providing investor confidence and reassuring the strength of the securities we guarantee. We look forward to continuing to collaborate with OIG and we value the work our auditors do.