



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

# Audit of U.S. Department of Housing and Urban Development Fiscal Years 2023 and 2022

## Financial Statements

Audit Report Number: 2024-FO-0003

November 15, 2023

Date: November 15, 2023

To: Vinay V. Singh  
Chief Financial Officer, F

//signed//

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

Subject: Transmittal of Independent Public Accountant's Audit Report on the U.S. Department of Housing and Urban Development'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 HUD's 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 HUD as of and for the fiscal years ended September 30, 2023 and 2022, and to provide reports on HUD's (1) internal control over financial reporting and (2) compliance with laws, regulations, contracts, and grant agreements and other matters, including whether financial management systems complied substantially with the requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA). 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 HUD, CLA reported

- That HUD'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<sup>1</sup> for fiscal year 2023 in internal control over financial reporting, based on limited procedures performed.
- One significant deficiency<sup>2</sup> for fiscal year 2023 in internal control over financial reporting, based on the limited procedures performed. The significant deficiency was related to HUD's financial

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<sup>1</sup> 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 HUD's financial statements will not be prevented or detected and corrected on a timely basis.

<sup>2</sup> 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.

reporting controls over grant accruals and the Office of Public and Indian Housing's cash management process.

- One reportable matter for fiscal year 2023 of noncompliance with provisions of applicable laws, regulations, contracts, and grant agreements and other matters. The reportable matter related to HUD's noncompliance with the Single Audit Act.

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 HUD's financial statements or conclusions about (1) the effectiveness of HUD's internal control over financial reporting; (2) HUD's compliance with laws, regulations, contracts, and grant agreements or other matters; or (3) whether HUD's financial management systems complied substantially with the three FFMIA requirements. CLA is responsible for the attached Independent Auditors' Report, dated November 15, 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.

HUD Handbook 2000.06, REV-4, sets specific timeframes for management decisions on recommended corrective actions. For each recommendation without a management decision, please respond and provide status reports in accordance with the HUD Handbook. Please furnish us copies of any correspondence or directives issued because of the audit.

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

Secretary  
U.S. Department of Housing and Urban Development

In our audits of the fiscal years 2023 and 2022 financial statements of the U.S. Department of Housing and Urban Development (HUD), we found:

- HUD'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 and one significant deficiency for fiscal year (FY) 2023 in internal control over financial reporting based on the limited procedures we performed; and
- one 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 an emphasis-of-matter paragraph related to the loans receivable and related foreclosed property, net, and negative loan guaranty liability line items and modified federal credit reform accounting, required supplementary information (RSI)<sup>1</sup>, and other information<sup>2</sup> included in the Agency Financial Report (AFR); (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) HUD's response to our findings and recommendations.

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the accompanying financial statements of HUD, which comprise the balance sheets as of September 30, 2023, and 2022; the related statements of net cost, changes in net position, and budgetary resources for the FYs then ended; and the related notes to the financial statements.

In our opinion, HUD's financial statements referred to above present fairly, in all material respects, HUD's financial position as of September 30, 2023, and 2022, and its net cost, changes in net position, and budgetary resources for the FYs then ended in accordance with U.S. generally accepted accounting principles.

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<sup>1</sup> The RSI consists of Management's Discussion and Analysis and the Combining Statement of Budgetary Resources which are included with the financial statements.

<sup>2</sup> 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 HUD 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.

### Emphasis of Matter

As discussed in notes 1 and 7 to the financial statements, HUD discloses certain loans receivable, net, and negative loan guarantees, the majority of which are issued under the *Federal Credit Reform Act of 1990* and attributable to the Federal Housing Administration (FHA), a significant component of HUD. HUD values these Credit Reform direct loans and loan guarantees and related receivables from assigned notes and property inventories at the present value of their estimated future cash flows associated with these assets. Anticipated cash outflows primarily include lender claims arising from borrower defaults, premium refunds, and costs to maintain and sell foreclosed properties. Anticipated cash inflows primarily include insurance premium receipts, proceeds from asset sales and principal and interest collections on Secretary-held notes. These valuation estimates are developed using cash flow models that integrate historical data with economic and program forecasts to develop assumptions underlying the models. Actual results may differ from the estimates. Our opinion on HUD's financial statements is not modified with respect to this matter.

As discussed in notes 1 and 15 to the financial statements, HUD discloses that the Government National Mortgage Association (Ginnie Mae), a significant component of HUD, administers a mortgage-backed securities (MBS) guarantee program that is not subject to the Federal Credit Reform Act (FCRA), but instead has implemented a "modified credit reform" process using program, financing, liquidating, and capital reserve accounts to process its cash receipts and disbursements through the U.S. Department of Treasury and to record upward and downward re-estimate transactions and negative subsidy payments. 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. HUD accounts for Ginnie Mae's MBS guarantee program in accordance with Statement of Federal Financial Accounting Standards (SFFAS) 51 – Insurance Programs while also performing modified credit reform accounting. Our opinion on HUD's financial statements is not modified with respect to this matter.

### 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 AFR, 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.

## INDEPENDENT AUDITORS' REPORT (Continued)

### 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 HUD's internal control over financial reporting. Accordingly, no such opinion is expressed.
- 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.

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

U.S. generally accepted accounting principles issued by the Federal Accounting Standards Advisory Board (FASAB) require 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 FASAB, 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 FASAB 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.

## INDEPENDENT AUDITORS' REPORT (Continued)

### Other Information

HUD'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 AFR. 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.

### **Report on Internal Control over Financial Reporting**

In connection with our audits of HUD's financial statements, we considered HUD'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 HUD's internal control over financial reporting and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We identified certain deficiencies in internal control over financial reporting that we consider to be a significant deficiency, described below and in Exhibit A.

#### HUD's Internal Controls Over Financial Reporting Need to be Strengthened

Although improvements have been noted from prior year within the Office of the Chief Financial Officer's (OCFO) grant accrual validation process, weaknesses remain within the Office of Community Planning and Development's (CPD) internal control activities over the preparation of their grant accrual estimates. These weaknesses present risk to several financial statement assertions including completeness, accuracy, and obligations related to the grant accrual liability on HUD's balance sheet.

Weaknesses also continue with the accuracy and completeness of transactions related to the Office of Public and Indian Housing (PIH) prepayments and PIH's cash management process, impacting the reliability of advances and prepayments, accounts receivables, and accounts payable line items on HUD's balance sheet.

*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



## INDEPENDENT AUDITORS' REPORT (Continued)

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 HUD's internal control over financial reporting that we do not consider to be material weaknesses or significant deficiencies. Nonetheless, these deficiencies warrant HUD management's attention. We have communicated these matters to HUD 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 HUD'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

HUD 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).

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

In planning and performing our audit of HUD's financial statements as of and for the FY ended September 30, 2023, in accordance with *Government Auditing Standards*, we considered HUD'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 HUD'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 HUD'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.



## INDEPENDENT AUDITORS' REPORT (Continued)

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 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 *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 HUD's financial statements, we tested compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements consistent with our auditors' responsibilities discussed below.

We also performed tests of compliance with certain provisions of the Federal Financial Management Improvement Act (FFMIA). However, providing an opinion on compliance with FFMIA was not an objective of our audit, and accordingly, we do not express such an opinion.

### 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 instances of noncompliance or other matters for FY 2023, described below and in Exhibit B, that are 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 HUD. Accordingly, we do not express such an opinion.

#### Noncompliance with the Single Audit Act

Although improvements continue to be made, HUD continues to not comply with key provisions of the Single Audit Act at the department level. Specifically, HUD has not implemented internal controls to accumulate information for assessing HUDs efforts regarding: 1) follow-up on audit findings to ensure that the recipient takes appropriate and timely corrective action, and 2) improving the effectiveness of the single audit process based on performance metrics.

### 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

HUD management is responsible for complying with laws, regulations, contracts, and grant agreements applicable to HUD, including ensuring HUD's financial management systems are in substantial compliance with FFMIA requirements.

## INDEPENDENT AUDITORS' REPORT (Continued)

### 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 HUD that have a direct effect on the determination of material amounts and disclosures in HUD's financial statements, including whether HUD's financial management systems comply substantially with the FFMIA Section 803(a) requirements, 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 HUD. 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.

### **Status of Prior Year's Control Deficiencies and Noncompliance Issues**

We have reviewed the status of HUD's corrective actions with respect to the findings and recommendations included in the prior year's Independent Auditors' Report, dated November 17, 2022. The status of prior year findings is presented in Exhibit C.

### **HUD's Response to Audit Findings and Recommendations**

*Government Auditing Standards* requires the auditor to perform limited procedures on HUD's response to the findings and recommendation identified in our report. HUD'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. In commenting on a draft of this report, HUD agreed with our findings and recommendations. The complete text of HUD's response is reprinted in Exhibit D.

### **CliftonLarsonAllen LLP**



Greenbelt, MD  
November 15, 2023

## EXHIBIT A Significant Deficiency

### 1. HUD's Internal Control Over Financial Reporting Needs to be Strengthened

#### a. Controls over Accrued Grant Liabilities

**Background:**

HUD must recognize and report balances due to or advances to grantees at the end of the reporting period. Adjustments are needed to provide for eligible expenses that grantees have incurred as of the reporting date but have not yet reported to HUD. Since these adjustments are based upon estimates, they are referred to as “accrual estimates.”

**Condition:**

CPD's control activities over the preparation of the grant accrual continue to be ineffective, specifically CPD could not provide documentation to support the underlying assumptions and upward adjustments used to calculate the grant accrual estimates.

**Criteria:**

GAO-14-704G, *Standards for Internal Control in the Federal Government*:

Principle 12 – Implement Control Activities, Periodic Review of Control Activities:

12.05 Management periodically reviews policies, procedures, and related control activities for continued relevance and effectiveness in achieving the entity's objectives or addressing related risks. If there is a significant change in an entity's process, management reviews this process in a timely manner after the change to determine that the control activities are designed and implemented appropriately. Changes may occur in personnel, operational processes, or information technology. Regulators; legislators; and in the federal environment, the Office of Management and Budget and the Department of the Treasury may also change either an entity's objectives or how an entity is to achieve an objective. Management considers these changes in its periodic review.

Principle 14 – Communicate Internally, Communication throughout the Entity:

14.03 Management communicates quality information down and across reporting lines to enable personnel to perform key roles in achieving objectives, addressing risks, and supporting the internal control system. In these communications, management assigns the internal control responsibilities for key roles.

Federal Accounting Standards Advisory Board's Federal Financial Accounting Technical Release 12 (TR 12), *Accrual Estimates for Grant Programs* (August 4, 2010):

15. For existing programs, management should ensure that adequate documentation is available for accrual estimates relating to existing grant programs. Typical support documentation may include:

- a. support for the calculation of the estimate, including the underlying assumptions used.
- b. historical data supporting the assumptions.

**Cause:**

CPD does not have a formalized process to support and document the underlying assumptions and upward or downward adjustments used in the grant accrual estimates to ensure its estimates are reasonable and reliable. Although CPD has agreed to corrective actions related to our prior year audit recommendations in this area, it does not plan to complete the corrective actions until July 2024.

## **EXHIBIT A**

### **Significant Deficiency**

**Effect:**

Since CPD's assumptions and upward adjustments are not adequately supported, the FY 2023 CPD grant accrual is at risk of significant misstatement. CPD's grant accrual estimate included a 25% upward adjustment in 2023 and a 50% upward adjustment in FY 2022, while keeping the underlying accrual estimate methodology the same. CPD was unable to provide adequate support to justify the 25% adjustment used in 2023. Had CPD used the 50% upward adjustment used in 2022, which was determined necessary through OCFO's grant accrual estimate validation, the grant accrual estimate would have increased by approximately \$434 million.

**Recommendation:**

Two recommendations from FY 2022 and one recommendation from FY 2019, which are still open, addressed the underlying cause of this finding. We have no new recommendations and are recommunicating the prior year recommendations below:

**2023-FO-0004-001-F**

We recommend the Principal Deputy Assistant Secretary for CPD to re-evaluate and adequately document justification for the establishment of the percentages and other key assumptions used to determine the accrual amount for each program in CPD's accrued grant liabilities estimate.

**2023-FO-0004-001-G**

We recommend the Chief Financial Officer (CFO), as part of the validation process for CPD's accrued grant liabilities, review CPD's accrued grant liabilities estimation methodology to ensure that it is based on verifiable grantee supporting documentation and all assumptions and variables used for the grant accrual estimate were properly established, supported, and documented.

**2020-FO-0003-001-O**

We recommend the Principal Deputy Assistant Secretary for CPD to collaborate with OCFO to review methodologies used to produce grant accrual estimates, to include testing and verification of the resulting accrual estimates.

b. Controls over PIH's Cash Management Process

**Background:**

HUD's prepayment balances include estimates for certain disbursements made to public housing agencies (PHAs) that are in excess of their expenses. These estimates are required as HUD does not have a system in place to provide real-time information on PHA expenditures or automatically reconcile PHA expenditure with HUD's disbursements.

**Condition:**

HUD's financial reporting process for its PIH Housing Choice Voucher (HCV) activities did not:

- (1) recognize prepayments when PIH HCV funds were disbursed to PHAs as advances and timely recognize expenses at the transaction level when funds were spent by PHAs. OCFO recorded an expense for the total amount disbursed to PHAs and then quarterly recorded manual journal entries to adjust the expense and prepayment balances in its general ledger to agree to its quarterly PIH prepayment estimate<sup>3</sup>.

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<sup>3</sup> Quarterly, OCFO utilizes PHA disbursement data from its general ledger and PHA expense information provided by PIH to estimate PIH's prepayment balance.

## **EXHIBIT A**

### **Significant Deficiency**

(2) recognize overpayments to PHAs of \$150 million as of December 31, 2022. Corresponding receivables were not recorded by HUD to recognize its cash claim from PHAs for overpayment.

(3) recognize underpayments to PHAs of \$330 million as of December 31, 2022. Corresponding underpayment liability amounts owed to PHAs were not recorded until third quarter of FY 2023, when HUD began using an estimation process to record an accrual for accounts payable.

#### **Criteria:**

GAO-14-704G, *Standards for Internal Control in the Federal Government*:

Principle 10 - Design Control Activities:

10.03 Accurate and timely recording of transactions - Transactions are promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from its initiation and authorization through its final classification in summary records. In addition, management designs control activities so that all transactions are completely and accurately recorded.

FASAB's SFFAS 1, *Accounting for Selected Assets and Liabilities*:

Accounts receivable arise from claims to cash or other assets. A receivable should be recognized when a federal entity establishes a claim to cash or other assets against other entities, either based on legal provisions, such as a payment due date (e.g., taxes not received by the date they are due), or goods or services provided.

Advances and prepayments should be recorded as assets. Advances and prepayments are reduced when goods or services are received, contract terms are met, progress is made under a contract, or prepaid expenses expire.

Accounts payable are amounts owed by a federal entity for goods and services received from, progress in contract performance made by, and rents due to other entities.

#### **Cause:**

PIH did not have a system capable of capturing expenses in real time or performing automated reconciliations between HUD's disbursements and expenses at the program level, where instead, it relied on untimely expenditure data and manual cash reconciliations.

#### **Effect:**

HUD's accounts receivables were understated and HUD's PIH prepayment was overstated by the amount that should have been recognized as a receivable. Due to the manual nature of PIH's cash management process, PIH's determination of receivables are not made until several months after the end of the FY. Consequently, we were unable to quantify the total misstatements to accounts receivable in regard to HUD's claim to cash for overpayments for the year ended September 30, 2023.

Furthermore, since prepayment, expense, and accounts payable transactions were not recorded by HUD at the point of the transaction, HUD must use manual processes to estimate these amounts which is prone to error and other risks increasing the risk of misstatement.

## **EXHIBIT A**

### **Significant Deficiency**

**Recommendation:**

Three recommendations from FY 2013 and one recommendation from FY 2015, which are still open, addressed the underlying cause of this finding. We have no new recommendations and are recommunicating the prior year recommendations below:

**2014-FO-0003-2C** – We recommend that the Assistant Secretary for PIH, in coordination with the CFO implement a cost-effective method for automating the cash management process to include an electronic interface of transactions to the standard general ledger.

**2016-FO-0003-2D** – We recommend that the Deputy Assistant Secretary for PIH establish a process to track the amount HUD owes to PHAs to cover prepayment shortages and provide the information to OCFO so that it can be properly recognized as accounts payable.

**2014-FO-0003-2E** – We recommend that the CFO review the cash management process to identify all financial events to be recognized in accordance with GAAP. Establish procedures to account for the cash management activity in a timely manner in compliance with GAAP.

**2014-FO-0003-2G** – We recommend that the CFO ensure that PIH's automation of its cash management process complies with Federal financial management requirements.

## EXHIBIT B Noncompliance Findings

### Noncompliance with the Single Audit Act

#### Background:

The Single Audit Act, as amended, specifies certain Federal agency responsibilities with non-Federal entities, in addition to promulgating regulations to the Director of the Office of Management and Budget (OMB) to provide Federal agencies guidance to implement the requirements of the Single Audit Act. The guidance issued by OMB implementing such requirements is the Code of Federal Regulations (CFR) Title 2 Grants and Agreements, Part 200 – Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.

#### Condition:

While HUD has some internal controls to address single audit requirements at the program office level, the Single Audit Accountable Official cannot assess and demonstrate HUD's compliance with the Single Audit requirements found at 2 CFR § 200.513(c) at the departmentwide level.

HUD has made some progress in developing internal controls for assessing HUD's compliance with OMB's federal awarding agency guidance outlined in 2 CFR § 200.513(c). However, HUD has not, in FY 2023, implemented those internal controls to accumulate information for assessing HUD's efforts regarding:

- Follow-up on audit findings ensuring that the recipient takes appropriate and timely corrective action.
- Improving the effectiveness of the single audit process based on performance metrics.

#### Criteria:

GAO-14-704G, *Standards for Internal Control in the Federal Government*:

Principle 12 – Implement Control Activities:

12.03 Management documents in policies for each unit its responsibility for an operational process's objectives and related risks, and control activity design, implementation, and operating effectiveness. Each unit, with guidance from management, determines the policies necessary to operate the process based on the objectives and related risks for the operational process. Each unit also documents policies in the appropriate level of detail to allow management to effectively monitor the control activity.

Public Law 104-156, Single Audit Act Amendments of 1996, § 7504 Federal agency responsibilities and relations with non-Federal entities,

“(a) Each Federal agency shall, in accordance with guidance issued by the Director<sup>1</sup> under section 7505, with regard to Federal awards provided by the agency—

“(1) monitor non-Federal entity use of Federal awards, and

“(2) assess the quality of audits conducted under this chapter for audits of entities for which the agency is the single Federal agency determined under subsection (b).

2 CFR § 200.513(c), issued by OMB, establishes Federal awarding Agency responsibilities to:

2. The Single Audit Accountable Official is responsible for ensuring that the agency fulfills the following requirements:

- Follow-up on audit findings to ensure that the recipient takes appropriate and timely corrective action. As part of audit follow-up, the Federal awarding agency must:
  - i. Issue a management decision as prescribed in 2 CFR § 200.521;
  - ii. Monitor the recipient taking appropriate and timely corrective action;



## EXHIBIT B Noncompliance Findings

- iii. Use cooperative audit resolution mechanisms (see 2 CFR § 200.25 Cooperative audit resolution) to improve Federal program outcomes through better audit resolution, follow-up, and corrective action; and
  - iv. Develop a baseline, metrics, and targets to track, over time, the effectiveness of the Federal agency's process to follow-up on audit findings and on the effectiveness of Single Audits in improving non-Federal entity accountability and their use by Federal awarding agencies in making award decisions.
- Improve on the effectiveness of the single audit process based on the metrics defined above.

### **Cause:**

HUD did not develop and implement a policy that addresses how it would assess and demonstrate compliance with the guidelines set forth by 2 CFR § 200.513(c) after it was issued in 2014. This resulted in HUD not having an established internal control structure in place to accumulate the information necessary to comply with those requirements. While HUD is now trying to accumulate this information and develop a policy, it does not plan to implement the corrective actions and implement a policy until FY 2024.

### **Effect:**

HUD is not in compliance with the Single Audit Act Amendments of 1996 as it relates to the guidelines set forth by 2 CFR § 200.513(c). The HUD Single Audit Accountable Official's lack of oversight could result in delays in HUD issuing management decisions, which could potentially delay corrective actions and the recovery of sustained questioned costs.

### **Recommendation:**

Two recommendations from FY 2021 and one recommendation from FY 2022, which are still open, addressed the underlying cause of this finding. We have no new recommendations and are recomcommunicating the prior year recommendations below:

**2023-FO-0004-003-A:** We recommend that the CFO establish a formal policy addressing HUD's federal awarding agency responsibilities under 2 CFR § 200.513(c). The policy should identify those involved in the process and their roles in addressing this single audit oversight function. The policy should also address how it will be carried out and documented.

**2022-FO-0004-004-D:** We recommend that the CFO establish controls to determine if follow-up is being conducted to determine if the recipient has taken appropriate and timely corrective action. That follow-up must include the following:

- Issuing a management decision letter as prescribed in §200.521.
- Monitoring the recipient taking appropriate and timely corrective action.
- Using cooperative audit resolution mechanisms (see §200.25) to improve federal program outcomes through better audit resolution, follow-up, and corrective action.
- Developing a baseline, metrics, and targets to track, over time, the effectiveness of HUD's process to follow-up on audit findings and on the effectiveness of single audits in improving recipient accountability and their use by HUD in making award decisions.

**2022-FO-0004-004-F:** We recommend that the CFO establish a control to hold HUD's Single Audit Accountable Official responsible for improving the effectiveness of the single audit process based on single audit metrics that HUD will establish.

**EXHIBIT C**  
**Status of Prior Year Findings**

Our assessment of the current status of the findings related to the prior year audit is presented below:

<i><b>FY 2022 Findings</b></i>	<i><b>Type</b></i>	<i><b>FY 2023 Status</b></i>
Weaknesses in Internal Control Over Financial Accounting and Reporting <ul style="list-style-type: none"> <li>a. Weaknesses in Internal Control over FHA's Borrowing Authority and Loan Receivables</li> <li>b. HUD's Internal Control Over Financial Reporting Needs to Be Strengthened – Controls over Accrued Grant Liabilities</li> <li>c. HUD's Internal Control Over Financial Reporting Needs to Be Strengthened – Controls over PIH's Cash Management Process</li> </ul>	Material Weakness	<ul style="list-style-type: none"> <li>a. Closed</li> <li>b. Modified Repeat – See Exhibit A</li> <li>c. Modified Repeat – See Exhibit A</li> </ul>
Noncompliance with FFMIA	Noncompliance	Closed
Noncompliance with the Single Audit Act	Noncompliance	d. Modified Repeat – See Exhibit B

**EXHIBIT D**  
**HUD's Response to Audit Findings and Recommendations**



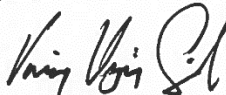
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT  
WASHINGTON, DC 20410-3000

OFFICE OF THE CHIEF FINANCIAL OFFICER

**HUD OCFO MEMO 24-11**

November 9, 2023

MEMORANDUM FOR: Rae Oliver Davis, Inspector General, HUD, GAF

FROM: Vinay V. Singh, Chief Financial Officer, F 

SUBJECT: Response to Draft Independent Auditor's Report on HUD's Fiscal Year 2023 Financial Statements

Thank you for the opportunity to review the draft Independent Auditor's Report on HUD's Fiscal Year 2023 Financial Statements. We are pleased to have earned an unmodified opinion on our consolidated financial statements for the fourth consecutive year, eliminated the material weakness, and resolved financial management as a top management challenge. Our success is directly tied to the dedication and commitment of every person at HUD to support sound financial management in achieving the mission of creating strong, sustainable, inclusive communities and quality affordable homes for all.

The rigor of undergoing an audit and reviewing the results outlined in the draft Independent Auditor's Report as well as our internal execution of the Accountability, Integrity, and Risks (AIR) workstreams provide us the means to continually assess our governance structure and the Department's risk and control foundation. We have made great strides and we must continue investing in maturing our programs, expanding our use of technology to reduce manual burden while further developing the capacity of our people.

I appreciate the Office of the Inspector General (OIG) and the independent public accounting firm, CliftonLarsonAllen (CLA) for their focus and dedication throughout the audit and the unwavering efforts by the HUD staff. Our cooperative efforts have resulted in significant progress for HUD and ultimately benefit America.