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

Audit of Federal Housing Administration's Fiscal Year 2025 Financial Statements

Audit Report Number: 2026-FO-0003

January 27, 2026

Office of Audit and Evaluation | Office of Inspector General
U.S. Department of Housing and Urban Development

Date: January 27, 2026

To: Frank Cassidy
Assistant Secretary for Housing and Federal Housing Commissioner

//signed//
From: Kilah S. White
Assistant Inspector General for Audit and Evaluation

Subject: Transmittal of Independent Public Accountant's Audit Report on the Federal Housing Administration's Fiscal Year 2025 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 Federal Housing Administration's (FHA) fiscal year 2025 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 Sikich CPA LLC to audit the financial statements of FHA as of and for the fiscal year ending September 30, 2025, and to provide reports on FHA's (1) internal control over financial reporting and (2) compliance with laws, regulations, contracts, and grant agreements and other matters. Our contract with Sikich 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 FHA, Sikich reported

- That FHA's financial statements as of and for the fiscal year ending September 30, 2025, were presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles.
- One material weakness[1] for fiscal year 2025 in internal control over financial reporting, based on limited procedures performed.
- No reportable noncompliance for fiscal year 2025 with provisions of applicable laws, regulations, contracts, and grant agreements or other matters.

In connection with the contract, we reviewed Sikich's reports and related documentation and questioned its representatives. Our review, as differentiated from an audit of the financial statements in accordance

[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 FHA's financial statements will not be prevented or detected and corrected on a timely basis.

with U.S. generally accepted government auditing standards, was not intended to enable us to express and we do not express opinions on FHA's financial statements or conclusions about (1) the effectiveness of FHA's internal control over financial reporting and (2) FHA's compliance with laws, regulations, contracts, and grant agreements or other matters. Sikich is responsible for the attached Independent Auditors' Report, dated January 27, 2026, and the conclusions expressed therein. Our review disclosed no instances in which Sikich 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.

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INDEPENDENT AUDITORS' REPORT

Brian D. Harrison, Acting Inspector General
U.S. Department of Housing and Urban Development

Frank Cassidy, Assistant Secretary for Housing and Federal Housing Commissioner
Federal Housing Administration

In our audit of the fiscal year 2025 financial statements of the Federal Housing Administration (FHA), we found:

- FHA's financial statements as of and for the fiscal year ended September 30, 2025, are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America;
- one material weakness in internal control over financial reporting based on the limited procedures we performed; and
- no reportable noncompliance for fiscal year 2025 with provisions of applicable laws, regulations, contracts, and grant agreements that we tested.

The following sections contain:

1. Our report on FHA's financial statements, including: an emphasis of matter paragraph related to the single-year presentation as a result of updated federal financial reporting requirements, an other matter paragraph related to hyperlinked data within the Annual Management Report (AMR); required supplementary information (RSI); and other information included with the financial statements; and
2. Other reporting required by *Government Auditing Standards*, which is our report on FHA's (a) internal control over financial reporting and (b) compliance and other matters. This section also includes FHA's comments on our report.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of FHA, which comprise the consolidated balance sheet as of September 30, 2025, and the related consolidated statement of net cost, changes in net position, and combined statement of budgetary resources for the fiscal year then ended, and the related notes to the financial statements (collectively, the financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, FHA's financial position of as of September 30, 2025, and its net cost of operations, changes in net position, and budgetary resources for the fiscal year then ended, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States (U.S.) of America (GAAS); standards applicable to financial statement audits contained in Generally Accepted Government Auditing Standards (GAGAS), issued by the Comptroller General of the United States; and guidance contained in Office of Management and Budget (OMB) Bulletin 24-02, *Audit*

Requirements for Federal Financial Statements. Our responsibilities under those standards and OMB Bulletin 24-02 are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* subsection of our report. We are required to be independent of FHA and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

The financial statements of FHA as of and for the year ended September 30, 2024, were audited by us, and we expressed an unmodified opinion on those financial statements in our report dated November 13, 2024. Those financial statements are not presented herein. Management implemented a single-year financial statement presentation beginning in fiscal year 2025 in accordance with the requirements of OMB Circular A-136, *Financial Reporting Requirements*.

Other Matter

Management has elected to include hyperlinks to information on websites outside the AMR to provide additional information for the users of its financial statements. Such information is not a required part of the financial statements or supplementary information required by the Federal Accounting Standards Advisory Board (FASAB). The information on these websites has not been subjected to auditing procedures, and accordingly we do not express an opinion or provide any assurance on it.

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) the preparation, measurement, and presentation of the RSI in accordance with U.S. generally accepted accounting principles; (3) the preparation and presentation of other information included in FHA's AMR, and ensuring the consistency of that information with the audited financial statements and the RSI; and (4) the design, implementation, and maintenance of 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.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to 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 GAAS, GAGAS, and OMB guidance will always detect a material misstatement 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 material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgments made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, GAGAS, and OMB guidance, 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 the 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 FHA'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
Accounting principles generally accepted in the United States of America and OMB Circular No. A-136, *Financial Reporting Requirements,* require that the Management's Discussion and Analysis (MD&A) and other RSI be presented to supplement the financial statements. Such RSI is the responsibility of management and, although not a part of the financial statements, is required by the FASAB and OMB, who consider it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, and historical context.

We have applied certain limited procedures to the RSI in accordance with auditing standards generally accepted in the United States of America. These procedures consisted of (1) inquiring of management about the methods of preparing 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 our audit of the financial statements, in order to report omissions or material departures from FASAB and 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
FHA'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 FHA's AMR. The other information comprises the message from the Federal Housing Commissioner, FHA at a Glance, A Message from the Deputy Assistant Secretary, Payment Integrity Information Act of 2019 (PIIA), Other Accompanying Information, and FHA Organizational Chart sections of the AMR but does not include the financial statements and our auditor's 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 audit 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.

OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Report on Internal Control over Financial Reporting and on Compliance and Other Matters

Internal Control over Financial Reporting
In connection with our audit of FHA's financial statements, we considered FHA'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 over financial reporting 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 FHA's internal control over

financial reporting and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We identified deficiencies in internal control over financial reporting that we consider to be a material weakness, described below and in Appendix A.

Material Weakness

FHA's Internal Control over Financial Accounting and Reporting of Loans Receivable Needs to be Strengthened

We found several weaknesses within FHA's internal controls over financial reporting, specifically within the Home Equity Conversion Mortgage (HECM) and Single Family partial claims activities resulting in FHA recording correcting entries to adjust the gross interim loans receivable and accounts receivable balances in the amounts of $876 million and $751 million, respectively. Additionally, we found weaknesses regarding management's presentation and disclosure assertions, resulting in corrections to the financial statement note disclosures for loans receivable and debt for the available borrowing authority from the Federal Financing Bank (FFB) for the direct loan program.

A *deficiency in control over financial reporting* 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 *material weakness* is a deficiency, or 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 fiscal year 2025 audit, we also identified deficiencies in FHA's internal control over financial reporting that we do not consider to be material weaknesses or significant deficiencies. Nonetheless, these deficiencies warrant FHA management's attention. We have communicated these matters to FHA 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 FHA's internal control over financial reporting in accordance with GAGAS and OMB audit guidance.

Responsibilities of Management for Internal Control over Financial Reporting

FHA management is responsible for 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.

Auditors' Responsibilities for Internal Control over Financial Reporting

In planning and performing our audit of FHA's financial statements as of and for the fiscal year ended September 30, 2025, in accordance with GAGAS, we considered FHA'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 FHA's internal control over financial reporting. Accordingly, we do not express an opinion on FHA's internal control over financial reporting. We are required to report all deficiencies that are considered to be significant deficiencies or material weaknesses. 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 internal control over financial reporting are to provide reasonable assurance that:

- 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
- 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.

Intended Purpose of Reporting on Internal Control over Financial Reporting
The purpose of this report is solely to describe the scope of our consideration of FHA's internal control over financial reporting and the results of our procedures, and not to provide an opinion on the effectiveness of FHA's internal control over financial reporting. This report is an integral part of an audit performed in accordance with GAGAS in considering internal control over financial reporting. Accordingly, this report on internal control over financial reporting is not suitable for any other purpose.

Compliance and Other Matters
In connection with our audit of FHA'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 fiscal year 2025 that would be reportable under GAGAS. However, the objective of our tests was not to provide an opinion on compliance with laws, regulations, contracts, and grant agreements applicable to FHA. Accordingly, we do not express such an opinion.

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 GAGAS.

Responsibilities of Management for Compliance with Laws, Regulations, Contracts, and Grant Agreements
FHA management is responsible for complying with laws, regulations, contracts, and grant agreements applicable to FHA.

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

Intended Purpose of Reporting 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 GAGAS 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.

FHA's Comments
FHA's comments on this report are included in Appendix B. FHA concurred with the findings in our report.

Sikich CPA LLC

Alexandria, VA
January 27, 2026

APPENDIX A: MATERIAL WEAKNESS

During our engagement to audit the FY 2025 FHA financial statements, we identified deficiencies in internal controls over financial reporting. These deficiencies include one material weakness, as described in this appendix.

MATERIAL WEAKNESS: FHA'S INTERNAL CONTROL OVER FINANCIAL ACCOUNTING AND REPORTING OF LOANS RECEIVABLE NEEDS TO BE STRENGTHENED

Background:
FHA's loans receivable include mortgage notes assigned, also described as Secretary-held notes, purchase money mortgages, notes related to partial claims, as well as direct loans relating to the Federal Financing Bank Risk Share program.

The majority of Secretary-held notes are HECM notes. HECM loans, while not in default, are assigned to HUD when they reach 98% of their maximum claim amount. The maximum claim amount is the dollar ceiling to which the outstanding loan balance can grow before being assigned to FHA.

Partial claims are paid by FHA to mortgagees as part of its loss mitigation efforts to bring delinquent mortgages current. In exchange, the borrower signs an interest free subordinate note and mortgage promising to pay HUD upon payoff of the FHA insured first mortgage or at the sale of the property. Partial claims for which FHA does not yet have the promissory note are recorded and reported as accounts receivable. No payment is due from the borrower unless a callable event occurs - usually a sale or refinance of the mortgaged property. When a callable event occurs, the partial claim is considered due and payable by the borrower and must be paid to FHA.

Termination of FHA's mortgage insurance occurs automatically when the mortgage reaches maturity or when the mortgagee reports a termination code, such as prepayment, use of the home disposition option, a non-conveyance foreclosure, conveyance for insurance benefits, or a voluntary termination.

FHA's loans receivable also includes direct loans through a risk share program with the Federal Financing Bank (FFB). As part of this program, FHA records a direct loan with the public as an asset on its balance sheet, and congruently, borrowing from FFB as an intragovernmental liability. As such, FHA is provided with borrowing authority from the FFB to incur direct loan obligations under the program. FHA's available borrowing authority that supports the undelivered orders for the direct loan program is disclosed in the financial statements.

Condition:
FHA implemented program changes for the HECM Secretary-held notes, but it did not implement adequate monitoring, accounting, and financial reporting controls to respond to these changes. For example, when FHA issued a mortgagee letter granting mortgagees 90 days to submit original first notes and mortgages, FHA did not develop a process to (1) monitor the receipt of the original first mortgage and promissory note; (2) follow up with mortgagees who failed to submit the documents within 90 days; (3) initiate repurchase requests for mortgagees who failed to comply with the submission requirements; and (4) reclassify loans missing original first notes from loans receivable to accounts receivable.

Additionally, we identified deficiencies over HECM notes terminations. Specifically, not all loan terminations were reported by the loan servicer in HERMIT[1], terminated loans were included in the loans receivable balance, and inspections were conducted and taxes were paid on some terminated loans.

FHA also implemented a process change for the Single Family partial claims without conducting an evaluation to assess the impact of the change. In prior years, FHA relied on the Missing Documents Report to reclassify Single Family loans with missing documents from loans receivable to accounts

[1] Home Equity Reverse Mortgage Information Technology System (HERMIT) – HERMIT is used to manage and report on the life cycle of FHA's HECM loans (loan origination to disposition) and assists FHA in managing the HECM portfolio.

receivable. In February 2025, FHA began relying on another report to determine the reclassification amount, without realizing the new report excluded some partial claims with missing original subordinate promissory notes.

We also found issues with Single Family partial claims terminations. For example, FHA's loans receivable balance included nearly 9,000 partial claims that had become due and payable when the related first mortgage was terminated. In addition, nearly 13,000 partial claims were not monitored in the system, SMART[2], used to alert FHA when refinanced mortgages are terminated and the partial claims become due and payable.

Additionally, we noted various issues with the servicing of the Single Family portfolio. Specifically, not all partial claim amounts recorded in SMART agreed with the amount on the actual promissory note and mortgage and not all unsupported partial claims were tracked on the Missing Documents Report.

Finally, FHA also included inaccurate disclosures for the HECM, Single Family and FFB loan programs in the financial statements as of September 30, 2025. Specifically, FHA incorrectly posted the new reclassification journal entry to the Single Family program instead of the HECM program and inaccurately disclosed FHA's available borrowing authority from the FFB.

Criteria:
The U.S. Government Accountability Office (GAO), *Standards for Internal Control in the Federal Government* (Greenbook, GAO-14-704G, September 2014), states:

> Principle 3 – Establish Structure, Responsibility, and Authority
> **3.11** Management documents internal control to meet operational needs. Documentation of control, including the changes to control, is evidence that controls are identified, capable of being communicated to those responsible for their performance, and capable of being monitored and evaluated by the entity.
>
> Principle 10 – Design Control Activities
> **10.03** Management designs appropriate types of control activities for the entity's internal control system. Control activities help management fulfill responsibilities and address identified risk responses in the internal control system.
>
> Principle 16 – Perform Monitoring Activities
> **16.01** Management should establish and operate monitoring activities to monitor the internal control system and evaluate the results.
> **16.03** ... Management either changes the design of the internal control system to better address the objectives and risks of the entity or improves the operating effectiveness of the internal control system.

FASAB Statement of Federal Financial Accounting Standards (SFFAS) No. 1, *Accounting for Selected Assets and Liabilities*, states:

> 40. Accounts receivable arise from claims to cash or other assets.
>
> 41. ***Recognition of receivables.*** 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. If the exact amount is unknown, a reasonable estimate should be made.

[2] Single-Family Mortgage Asset Recovery Technology (SMART) – SMART tracks business processes for Single Family mortgage notes including collection, release of lien, terminations, and singe family notes inventory.

Cause:
FHA lacked a formal governance framework for change management and therefore implemented changes without evaluating or documenting the accounting implications of the changes on financial reporting. In addition, FHA did not have controls in place to ensure changes were accurately recorded in the correct program accounts and properly disclosed in the financial statements. Additionally, FHA did not have sufficient controls in place to address the risks associated with the manual and complex nature of loan servicing. Lastly, FHA's financial reporting procedures do not document the rationale, calculation, and identification of the underlying support needed for each amount and narrative disclosed in the financial statements.

Effect:
FHA's gross loans receivable balance was overstated by $876 million as of June 30, 2025. Additionally, in the FY 2025 financial statement note disclosures, the HECM and Single Family loans receivable balances were both misstated by approximately $460 million and FHA reported its available borrowing authority from the FFB as of September 30, 2025 was approximately $405 million instead of approximately $1.7 billion. After we brought these matters to FHA's attention, FHA implemented interim processes and recorded correcting entries to adjust the loan receivable, accounts receivable and related allowance balances in the financial statements and corrected the note disclosures for loans receivable and debt.

In addition to the errors identified during our audit, due to the nature of the internal control deficiencies we identified, there is increased risk that material misstatements in the financial statements and disclosures could go undetected.

Recommendations:
We recommend that the Director of the Denver Homeownership Center:

1A. Implement a process and procedure to ensure a complete and accurate Missing Documents Report is submitted to the General Ledger Division for recording a monthly reclassification entry between HECM loans receivable and accounts receivable.

1B. Develop a process to (1) monitor receipt of original first notes and mortgages and recorded assignments, (2) follow up with mortgagees who fail to submit documents by the required deadline, and (3) initiate repurchase requests for HECM mortgagees who fail to meet assignment requirements.

1C. Implement procedures to (a) ensure all HECM loan terminations are accurately reported, (b) prevent HECM terminated loans from being included in the loans receivable balance, and (c) prevent inspections and tax payments on HECM terminated loans.

1D. Implement comprehensive controls to (a) identify all Single Family partial claims related to terminated first mortgages, (b) update the system record of partial claims that will become due and payable when the refinanced mortgages are terminated, and (c) remove partial claims related to terminated mortgages from SMART.

1E. Consider enhancing the SMART system, by adding fields (a) requiring FHA's loan servicing contractor to enter the amount on the original mortgage and promissory note and (b) calculating the difference between the partial claim amount in SMART and the amount entered from the documents.

1F. Implement an enhanced review process to ensure the receipt of partial claim documents is accurately marked in SMART so that the Missing Documents Report will be accurate.

1G. Determine which report accurately reflects the status of partial claims without original documentation, certify the completeness and accuracy of the identified report, and provide the report to the General Ledger Division for the reclassification entry.

We recommend that the Deputy Assistant Secretary for Finance and Budget:

1H. Implement a formal governance framework for change management that includes:

- A change control protocol for changes in programs, policies, existing controls, and source documents, including impact assessments and approvals.
- Cross-functional review involving the policy, program, accounting, financial reporting, and compliance teams before any changes are finalized.
- Documentation of rationale and expected financial impact for each change.
- Training and awareness for management on the importance of following the governance framework for change management.

We recommend the Director of the Office of Financial Accounting and Reporting:

1I. Record journal entries to reclassify the HECM cases with missing original first notes for more than 90 days from loans receivable to accounts receivable.

1J. Ensure the report provided by the NSC to reclassify partial claims from loans receivable to account receivable is appropriate for financial reporting and document the decision.

1K. Implement a procedure to test journal entry posting models and their effect on the financial statements and related note disclosures when there are program changes requiring new journal entries.

1L. Develop a standard operating procedure that details the rationale, calculation, and underlying support needed for the amounts and narrative descriptions in the financial statement note disclosures, including borrowing authority.

1M. Implement quality control checks that reconcile financial statement disclosure amounts to the general ledger and other supporting documentation as part of the financial statements review and approval process.

APPENDIX B: FHA'S COMMENTS

OFFICE OF HOUSING

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-8000

January 23, 2026

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

FROM: Nancy Corsiglia
Nancy E. Corsiglia, Associate Deputy Assistant Secretary for Finance and Budget, HW

SUBJECT: Response to Fiscal Year 2025 Draft Financial Statement Audit Report

On behalf of the Federal Housing Administration (FHA), thank you for the opportunity to respond to fiscal year 2025 draft financial statement audit report.

We are pleased to have obtained an unmodified audit opinion on the financial statements and concur with the findings and recommendations related to the material weakness in internal control over financial reporting.

FHA's management and staff are committed to making changes necessary to strengthen controls around financial reporting and have begun implementing several of the recommendations.

We thank you and appreciate the collaborative efforts of the Office of Inspector General (OIG) and the independent public accounting firm, Sikich.

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