



GAO

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United States General Accounting Office  
Washington, DC 20548

April 9, 2003

The Honorable Paul S. Sarbanes  
Ranking Minority Member,  
Committee on Banking, Housing and  
Urban Affairs  
United States Senate

The Honorable Jack Reed  
Ranking Minority Member,  
Subcommittee on Housing and  
Transportation  
Committee on Banking, Housing and  
Urban Affairs  
United States Senate

Subject: Department of Housing and Urban Development: Status of Efforts to  
Implement an Integrated Financial Management System

Weaknesses in the Department of Housing and Urban Development's (HUD) financial management systems have been a long-standing challenge for the department and have contributed to our designating two of its major programs areas as high-risk and the financial management information systems in particular as a major management challenge. While some progress has been made, both we and the HUD Office of the Inspector General (IG) have reported extensively on weaknesses related to HUD's financial management systems. In audits of HUD's consolidated financial statements, the IG has consistently identified several material internal control weaknesses resulting from inadequate financial management systems. In recent audit reports, the HUD OIG also noted that the completion of the development of adequate financial management systems is the most critical need faced by HUD in improving its financial management control environment. Responsive financial management systems are particularly critical to HUD's ability to meet its mission, deliver key services, and establish sufficient management control over its operations.

In light of these issues, you asked that we (1) summarize HUD's past efforts to implement an integrated financial management system, (2) identify the challenges HUD faces with its current financial management systems, and (3) determine the status of HUD's current efforts to identify and address its financial management systems needs.

## Results in Brief

HUD's past efforts have not resulted in the implementation of a modern integrated financial management system to carry out its core accounting functions and meet other needs. HUD's current Central Accounting and Program System (HUDCAPS), as implemented in fiscal year 1999, is the product of its Financial System Integration (FSI) effort, which began in 1991. While this effort did result in the development and deployment of various modules and systems to support several key programs and processes, it did not result in an integrated financial management system, which was a stated goal of the project. In 1998 we reported<sup>1</sup> that even though HUD spent hundreds of millions of dollars, the FSI effort was not fully successful because of the lack of (1) adequate project management, (2) finalized project plans that provided an integration roadmap, and (3) adequate cost-benefit analyses that properly estimated the costs to achieve the objectives of the plan and how long it would take to achieve these objectives.

HUD uses HUDCAPS as its core financial management and general ledger system. However, this system is not efficient, has become outdated, and has high annual maintenance costs. HUDCAPS requires numerous manual adjustments at year-end and cannot provide HUD managers with accurate, timely, and useful information to manage the agency on a day-to-day basis. HUDCAPS is not used across the department as originally intended by the FSI effort. The Federal Housing Administration (FHA) and the Government National Mortgage Association (Ginnie Mae) continue to maintain their own general ledger/financial management systems that are not integrated with HUDCAPS. HUD also continues to maintain the Program Accounting System (PAS), which it uses to perform funds control and other functions for the department. To help address ongoing deficiencies with its general ledger, FHA recently implemented the general ledger module of a commercial-off-the-shelf (COTS) software package that automates the interface with HUDCAPS. However, it is too early to determine whether this new general ledger system will address FHA's reported deficiencies in this area.

HUD is currently in the early stages of deciding whether to upgrade HUDCAPS or acquire and deploy a new financial management system. According to HUD officials, the department has submitted a procurement request for the initial study of the HUD Integrated Financial Management Improvement Project (HIFMIP). The study is expected to document and analyze business functions of the department and the feasibility, risks, and costs of core systems options. Since September 2002, HUD's plans for awarding a contract to conduct a feasibility study have been postponed twice. The latest delay came with the recent hiring of an Assistant Chief Financial Officer for Systems (ACFO), who made a decision to broaden the scope of the Needs Statement to include the financial management needs of FHA and Ginnie Mae, which we view as a sound decision. Proper planning is an essential element to the success of the project and therefore to HUD's effort to correct its long-standing financial management systems problems. HUD now plans to award the contract for the study

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<sup>1</sup>U.S. General Accounting Office, *HUD Information Systems: Improved Management Practices Needed to Control Integration Cost and Schedule*, GAO/AIMD-99-25 (Washington, D.C.: Dec.18, 1998).

in May 2003 and to complete the study by July 2004. Given the nature of HUD's long-standing financial management systems problems and the importance of these systems to carrying out HUD's mission and activities, we are recommending that HUD's Secretary make the modernization and integration of its financial management systems a continuing top priority and to take the necessary actions to help ensure successful implementation.

In commenting on a draft of this report, HUD agreed with our recommendation that the Secretary make the integration of the department's financial management systems a continuing top priority and stated that it has already done so. HUD also discussed at length its current actions to address its financial management systems challenges and requested additional recognition of these actions in our report. While we recognize that HUD is presently taking action, much of this action has occurred only recently. Our report focuses on HUD's historical efforts to improve its long-standing financial management systems deficiencies, which have been the subject of our reports for several decades. As stated in our report,<sup>2</sup> in 1984 we reported financial management problems that included systems that were inadequate, lacked internal controls, and failed to meet program managers' needs. While HUD has recently begun to renew its efforts to address these deficiencies, sustained commitment from HUD's management will be needed to completely address and eliminate these weaknesses.

## **Background**

HUD is the primary federal agency responsible for programs dealing with housing, community development, and fair housing opportunities. Its mission is to promote adequate and affordable housing, economic opportunity, and a suitable living environment free from discrimination. HUD pursues its mission through the programs offered by FHA, Ginnie Mae, the Office of Community Planning and Development, the Office of Public and Indian Housing, and the Office of Fair Housing and Equal Opportunity. FHA makes housing affordable through its mortgage insurance programs for multifamily and single-family housing. Ginnie Mae supports expanded affordable housing by providing an efficient government-guaranteed secondary market for mortgaged-backed securities. HUD is one of the nation's largest financial institutions with responsibility for managing more than \$550 billion in insured mortgages and \$600 billion in guarantees of mortgage-backed securities. For fiscal year 2003, HUD's budget authority was about \$32 billion.

The challenges HUD faces in improving its financial management systems are not new and have been the subject of GAO reports for several decades. For example, in 1984 we reported financial management problems that included systems that were inadequate, lacked internal controls, and failed to meet program managers' needs. In an effort to correct financial management systems deficiencies, in 1991 HUD initiated the FSI effort which, as discussed later in this report, was a departmentwide project

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<sup>2</sup>U.S. General Accounting Office, *Increasing the Department of Housing and Urban Development's Effectiveness Through Improved Management*, Vol.1, GAO/RCED-84-9 (Washington, D.C.: Jan. 10, 1984).

to design and implement an integrated financial management system consisting of both financial and mixed systems.<sup>3</sup> HUDCAPS was a product of this effort.

HUD currently uses numerous financial management and mixed systems to achieve its mission. HUD uses HUDCAPS as its core financial management and general ledger system. FHA used a Management Sciences Associates (MSA) system as its financial management system through fiscal year 2002. FHA now uses Peoplesoft, which was implemented on October 1, 2002, as its general ledger system. Ginnie Mae uses Macola, which provides for all of its financial accounting needs. In addition, there are

- 19 legacy insurance systems that are interfaced with FHA's new general ledger system;
- PAS, which performs funds control and tracks transaction details for the department; and
- Hyperion,<sup>4</sup> which supports the preparation of the department's financial statements.

HUD's financial statement auditors have reported the department's lack of an integrated financial management system that is in compliance with federal financial system requirements as a material internal control weakness since fiscal year 1991. In addition, HUD's financial statement auditors have reported HUD as not being in substantial compliance with the requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA)<sup>5</sup> since fiscal year 1997, when reports under the act were first required. HUD has been reported as not being in substantial compliance with FFMIA primarily because of deficiencies in FHA's legacy general ledger system. This system did not support credit reform accounting nor did it comply with the *U.S. Standard General Ledger* (SGL) at the transaction level.<sup>6</sup> In light of these issues, in 1999 FHA began the acquisition of a new financial management system.

In 1994 we designated HUD a high-risk agency, in part because of inadequate financial management and information systems and slow progress in correcting fundamental management weaknesses. In our 2003 biannual performance and accountability series report,<sup>7</sup> we identified two of HUD's major program areas—single-family mortgage insurance and rental housing assistance—as high-risk. HUD's challenges with programmatic and financial management information systems cut across both programs and contribute to its high-risk designation. Also, in fiscal years 2001 and 2003 we identified HUD's financial management information systems as a major management challenge in our biannual performance and accountability series report.

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<sup>3</sup>Mixed systems are those that support both programmatic and financial information needs.

<sup>4</sup>Hyperion is the software within HUDCAPS used to compile the general ledger information for reporting purposes and financial management consolidation.

<sup>5</sup>FFMIA requires the 24 major departments and agencies covered by the Chief Financial Officers Act of 1990 (CFO Act) to implement and maintain financial management systems that comply substantially with (1) federal financial management systems requirements, (2) applicable federal accounting standards, and (3) the *U.S. Government Standard General Ledger* at the transaction level.

<sup>6</sup>The SGL provides a standard chart of accounts and standardized transactions that agencies are to use in all of their financial systems.

<sup>7</sup>U.S. General Accounting Office, *Major Management Challenges and Program Risk: Department of Housing and Urban Development*, GAO-03-103 (Washington, D.C.: January 2003).

## **Scope and Methodology**

To summarize the outcome of HUD's past efforts to implement an integrated financial management system and to identify the challenges HUD faces with current financial management systems, we reviewed prior GAO and HUD OIG audit reports. We also interviewed officials at the HUD Office of the Chief Financial Officer (OCFO), Office of the Chief Information Officer (OCIO), Office of the Inspector General (OIG), FHA, and Ginnie Mae. To determine the status of HUD's current efforts to identify and address its financial management systems needs, we interviewed HUD OCFO and OCIO officials. We obtained and reviewed HUD's Statement of Work and Needs Statement for its currently planned feasibility study to upgrade or replace HUDCAPS and to determine if HUD's identified needs were included in the Statement of Work. We conducted interviews with FHA officials to discuss their plans for the implementation of a new core accounting system and to determine whether this system would be integrated with HUDCAPS. We also conducted interviews with Ginnie Mae officials to discuss their financial management system and to determine whether the entity had plans for acquiring a new system that would be integrated with HUDCAPS.

Our work focused on HUD's core financial management systems, including HUDCAPS and the FHA and Ginnie Mae general ledger systems. We conducted our work in Washington, D.C. from July 2002 through November 2002 in accordance with generally accepted government auditing standards.

HUD also suggested several technical comments, which we incorporated where appropriate.

## **HUD's Past Financial Management Systems Integration Efforts Have Not Been Successful**

HUD's FSI effort, which was initiated in 1991, was intended, among other things, to implement an integrated financial management system that would provide timely and accurate information to managers and enable the department to properly manage its financial resources. While the project did result in the development and deployment of various modules and systems to support several key programs and processes, it did not achieve the primary goal of implementing an integrated financial management system. Rather, the project's main focus was narrowed to improving HUD's core financial management system. HUDCAPS evolved from this effort and continues to be HUD's core financial management system today.

The CFO Act calls for agencies to develop and maintain an integrated accounting and financial management system that complies with federal requirements and provides for (1) complete, reliable, consistent, and timely information that is responsive to the financial information needs of the agency and facilitates the systematic measurement of performance, (2) the development and reporting of cost information, and (3) the integration of accounting, budgeting, and program information. In addition, the Office of Management and Budget (OMB) Circular A-127, *Financial Management Systems*, requires agencies to establish and maintain a single integrated financial

management system that conforms with functional requirements published by the Joint Financial Management Improvement Program (JFMIP).<sup>8</sup>

In its 1991 FSI plan, HUD acknowledged that inadequate and nonintegrated financial management systems rendered it unable to properly manage its programs and financial resources. The FSI plan included specific objectives to establish sound financial management controls, correct material weaknesses, improve financial management, provide timely and accurate information to managers to enable them to meet their organizational objectives, meet the goals of 31 U.S.C. § 3512 (d) commonly referred to as the Federal Managers' Financial Integrity Act (FMFIA) of 1982,<sup>9</sup> and comply with OMB Circular A-127, *Financial Management Systems*.

HUD's strategy for achieving the FSI objectives was to replace about 100 of its financial and mixed systems with 9 new standard integrated systems including a core financial management system.<sup>10</sup> This strategy was based on an analysis which concluded that HUD did not have the basic financial management systems to serve as the foundation for an integrated systems environment. The design of the 1991 FSI plan required that 8 financial systems be integrated with the new core accounting system. Once the 9 systems were deployed, program offices were to use them to support their business operations.

In 1993, HUD revised its initial FSI plan in response to (1) slow progress in implementing systems integration, (2) the need to comply with revisions to OMB Circular A-127, and (3) senior management's serious doubts about the viability of creating nine new fully integrated systems and having program offices adapt their business operations to meet the requirements of these systems by September 1998, which was the FSI plan's original target date. The 1993 plan included the same primary objectives as the 1991 plan but also included new objectives such as eliminating the department's financial management systems from OMB's list of high-risk areas for management improvement, being consistent with HUD's then current reform plan,<sup>11</sup> and meeting the requirements of the Government Performance and Results Act of 1993.<sup>12</sup> Under the 1993 plan, the CFO's office was required to complete the core financial system project initiated under the 1991 plan and program offices were required to develop (1) new systems that would support program management priorities, financial and management information needs, and business needs, and (2) integrate these systems with the core financial system. Plans for the remaining eight standard systems called for in the 1991 plan were cancelled. In 1997, HUD revised its

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<sup>8</sup>JFMIP is a joint and cooperative undertaking of OMB, the Department of the Treasury, the Office of Personnel Management (OPM), and GAO working with executive agencies to improve financial management practices throughout the government.

<sup>9</sup>Section 4 of FMFIA requires agencies to report whether their accounting systems conform to the accounting principles and standards mandated by the Comptroller General of the United States.

<sup>10</sup>The initial nine systems in the 1991 FSI plan were the (1) core accounting system, (2) mortgage insurance system, (3) administrative accounting system, (4) mortgage-backed securities system, (5) grants management system, (6) debt collection/management system, (7) notes/loan servicing system, (8) project/recipient monitoring system, and (9) management information system.

<sup>11</sup>In 1994, the HUD Secretary announced the HUD Reinvention Blueprint Plan, intended to reinvent and transition the department from a "lumbering bureaucracy to a streamlined partner with state and local governments."

<sup>12</sup>The Government Performance and Results Act of 1993 requires agencies to set goals, measure performance, and report on their accomplishments.

FSI plan again, extending the date for fully deploying the core financial management system from September 1998 to October 1999 and incorporating the development and deployment of additional new systems required to meet the department's latest management reforms and organizational changes.<sup>13</sup>

In our 1998 report, we identified several challenges regarding HUD's 1997 FSI plan. These challenges included inadequate project management oversight, lack of finalized project plans, and outdated cost-benefit analyses. Specifically, we reported on how the department had spent hundreds of millions of dollars on its effort to develop an integrated financial management system without having the appropriate project management processes in place and without knowing how much it would cost or how long it would take to complete the objectives of the FSI effort. Title 40 U.S.C. § 11312, commonly referred to as the Clinger-Cohen Act of 1996, requires agencies to establish a process to assess the value and risks of information technology (IT) investments, including specific quantitative and qualitative criteria for comparing and prioritizing alternative IT projects. In response to the recommendation in our 1998 report, HUD has established an IT investment management program to select, control, and evaluate investments throughout their lifecycle. In this regard, HUD has routinely assessed and scored proposed projects against departmentwide project selection criteria and used the program to select IT projects.

As a result of the FSI effort, several modules and systems initiated under the 1993 and 1997 plans were implemented including HUDCAPS and systems to support the department's Section 8 financial and program management functions, community planning and development grants, and procurement process. HUDCAPS, as HUD's core financial management system, was initially intended to replace the general ledger systems at FHA and Ginnie Mae as well as HUD's PAS. However, HUDCAPS has not replaced these systems. Both FHA and Ginnie Mae have continued to maintain their own general ledger systems, and HUD continues to maintain PAS. HUDCAPS functions as the department's financial management system, receiving data from FHA's and Ginnie Mae's general ledger systems on a periodic basis.

**Current Financial Management Systems  
Are Outdated and Continue to  
Have Deficiencies**

In January 2003, for the twelfth year in a row, the HUD OIG cited the lack of an integrated financial management system in compliance with federal financial system requirements as a material weakness in its audit of the department's financial statements. In addition, as acknowledged by HUD officials, HUDCAPS uses outdated technology and is a version of a COTS software package that is no longer available. HUD is totally dependent upon the vendor for software modifications, maintenance, and enhancements because the vendor owns the source code for the system. As a

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<sup>13</sup>The "HUD 2020 Management Reform Plan" issued in 1997 included, as one of its reforms, the development and implementation of an integrated financial management system that is accurate, reliable, and timely. In his confirmation hearing, Secretary Cuomo stated that his top priority was to put HUD's management systems in order and to restore effective management and financial accountability at HUD. This plan established an October 1999 deadline for fully deploying an integrated core financial system.

result, HUD will have to continue to pay the vendor for support of any new modifications or upgrades to HUDCAPS. Further, as recognized by HUD officials, HUDCAPS is neither a robust nor efficient system. For example, it cannot be modified to account for multiyear monies at year-end, resulting in extensive manual effort to reclassify dollars from 1-year accounts to multiyear accounts. This is one reason that HUD has to rely on extraordinary manual efforts to prepare its financial statements.

To promote more timely financial reporting and to discourage the costly manual efforts that many agencies have used to obtain unqualified opinions of financial statements without addressing their underlying systems problems, OMB accelerated audited financial statement reporting dates by 1 month for fiscal years 2002 and 2003 and by 3½ months for fiscal year 2004. OMB also requires the preparation of unaudited quarterly financial statements. HUD has been able to issue its audited financial statements by the required due dates (most recently February 1, 2003) for the last 3 fiscal years. HUD has also received unqualified opinions on these statements since fiscal year 2000. However, because the department's current financial management systems are outdated, inefficient, and require extensive manual intervention, HUD will be increasingly challenged to meet these reporting dates as they are further accelerated.

HUD's financial statement auditors have also reported weaknesses in FHA's financial management system for several years. As discussed earlier in this report, until October 1, 2002, FHA used MSA as its financial management system. MSA is an old version of a COTS software package that did not (1) comply with governmental accounting standards, (2) have funds control or budgetary modules, and (3) comply with federal credit reform accounting. In the fiscal year 2002 financial statement audit report, the HUD OIG reported HUD as not being in substantial compliance with FFMIA primarily because FHA's systems did not comply with the SGL at the transaction level. FHA's 19 legacy insurance systems that fed transactions to its commercial general ledger system lacked the capabilities to process transactions in the SGL format. Therefore, FHA provided only consolidated summary-level data to HUDCAPS. To do this, FHA used several manual processing steps, including the use of personal-computer-based software to convert the summary-level commercial accounts to government SGL and transfer the account balances to HUDCAPS. This process did not comply with JFMIP requirements that the core financial system provide for automated month and year-end closing of SGL accounts and roll-over of the SGL account balances.

To help address deficiencies with its legacy general ledger system, as a first step in upgrading its overall financial management system FHA implemented the general ledger module of a COTS software package on October 1, 2002. This module automates the monthly interface of summary-level balances with HUDCAPS. The project plan for FHA's new system includes full implementation of other FHA financial modules, such as cash management and funds control, and the modification or replacement of various insurance systems by fiscal year 2007. Although the COTS software that FHA purchased has been tested and certified as being compliant with JFMIP requirements, it is too early to determine whether the new general ledger module will meet all of FHA's identified needs and fully address the deficiencies that have hampered FHA's compliance with FFMIA.



Ginnie Mae has used its current general ledger and financial management system for the last 10 years and has no plans to replace it. In addition, Ginnie Mae has received unqualified opinions for many years, and its financial statement auditors have not reported any material weaknesses or reportable conditions since 1995. However, as previously mentioned, because Ginnie Mae's system is not integrated with HUDCAPS, it may ultimately need to be modified or replaced to achieve full financial management systems integration at HUD.

### **HUD Is in the Early Stages of Assessing its Current Financial Management System Needs**

HUD is currently in the early stages of deciding whether to upgrade HUDCAPS or acquire and deploy a new integrated system that would better meet its needs. While in August 2000 HUD developed a financial vision to implement a new integrated financial management system,<sup>14</sup> actions on the financial management systems vision of 2000 were largely deferred. For the past 2 years, HUD's management has focused its attention on stabilizing and enhancing the existing financial management systems operating environment in order to enable the preparation of auditable financial statements and address internal control weaknesses reported in the HUD OIG annual financial statement audit reports. These efforts were instrumental in helping HUD achieve unqualified audit opinions for the last 3 years. However, serious internal control weaknesses related to HUD's financial management systems remain.

In May 2002, HUD submitted a procurement request for the initial study of the HUD Integrated Financial Management Improvement Project (HIFMIP). This study is expected to document and analyze the department's business functions and the feasibility, risks, and costs of core system options, to include modifying existing systems, COTS implementation, and outsourcing opportunities. HUD's plans for awarding a contract for the initial study and completing the contract have changed several times since the initial procurement request. For example, HUD initially expected to award a contract by the end of September 2002 for work to be completed by April 2003. However, with the recent hiring of an ACFO for Systems, HUD's plans were delayed from September 2002 to December 2002 so that the scope of the Needs Statement could be broadened to include the financial management needs of FHA and Ginnie Mae, which we view as a sound decision. HUD currently plans to award a contract for the study by May 2003 and to update the financial management systems vision by January 2004. HUD also plans to complete a contracted study of core systems options for management decision making under the HIFMIP by July 2004.

### **Conclusions**

In the past, HUD has not sufficiently planned for the implementation of a departmentwide integrated financial management system or provided the necessary direction, oversight, and sustained attention needed for a successful project. While HUDCAPS was an improvement over HUD's earlier core financial management

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<sup>14</sup>This document described HUD's plans, at that time, for developing and implementing an integrated financial management system.

system, it fell far short of HUD's goal to develop a departmentwide integrated financial management system. As a result, long-standing financial management deficiencies, including the availability of timely, reliable data to support decision making, remain a challenge and HUD's ability to meet accelerated financial reporting requirements is made much more difficult. HUD management has recently renewed its efforts to address the department's systems deficiencies. Sustained commitment will be needed to successfully complete these efforts.

### **Recommendation**

To help ensure the success of future systems implementation efforts, we recommend that the Secretary of the Department of Housing and Urban Development make the modernization and integration of the department's financial management systems a continuing top priority and direct the Chief Financial Officer to take the following steps:

- work collaboratively with the directors of the department's components,
- acquire a qualified and experienced project manager,
- obtain stakeholder involvement,
- develop and maintain milestones, and
- establish measurable performance indicators.

### **Agency Comments and Our Evaluation**

In written comments (reprinted in app. I) on a draft of this report, HUD generally agreed with our recommendation but suggested that we recognize the actions the department has already taken to implement the recommendation. While we recognize that HUD has already taken some actions to implement the recommendation in our report, the thrust of our recommendation is for sustained management commitment in order to ensure the success of its modernization and integration efforts. Because this systems implementation will be a long-term effort for the department, it will need to achieve a disciplined effort consistent with recognized best practices referred to in our recommendation. Our prior experiences in reviewing major systems acquisitions have shown that failure to establish and enforce key processes outlined in legislation and expanded on in best practices developed by GAO and others is a salient factor for efforts that end up costing more and taking longer than estimated and that fall short of performance expectations. Many of these best practices were not present in HUD's past systems implementation effort and will be a challenge for the department in future efforts.

Regarding financial management systems integration requirements, HUD stated that our report incorrectly implies that it is required to have one departmental financial management system encompassing FHA, Ginnie Mae, and all other HUD program activity. Our report does not say this or even imply this. Rather, we state that HUD's past FSI effort did not result in an integrated financial management system, which was a stated goal of the project that began in 1991. We also state that HUD's existing financial management system is not efficient, has become outdated, and has high annual maintenance costs. HUD's letter acknowledges all of these issues. Federal financial management system requirements state that systems should be planned,

managed, and linked together electronically in an efficient and effective manner to provide departmentwide financial system support necessary to meet the agency's financial management needs. As was reported by the HUD OIG in its report on HUD's fiscal year 2002 financial statements, the agency's systems do not comply with these requirements.

We are sending copies of this report to the Honorable Mel Martinez, Secretary of the Department of Housing and Urban Development, Angela Antonelli, the Chief Financial Officer, and other interested parties. We will make copies available to others upon request.

If you have any questions about this letter, please contact me at (202) 512-9508 or by email at [calboml@gao.gov](mailto:calboml@gao.gov). Key contributors to this assignment were Rosa R. Harris, Debra S. David, David Gill, and Estelle Tsay.

Sincerely yours,

A handwritten signature in black ink that reads "Linda Calbom". The signature is written in a cursive style with a large initial "L".

Linda M. Calbom  
Director, Financial Management  
and Assurance

Appendix I

Comments from the Department of Housing and Urban Development



U.S. Department of Housing and Urban Development  
Washington, D.C. 20410-0100

CHIEF FINANCIAL OFFICER

MAR 11 2003

Ms. Linda Calbom  
Director, Financial Management  
and Assurance Team  
General Accounting Office  
441 G Street NW, Suite 5Q24  
Washington, DC 20548

Dear Ms. Calbom:

Thank you for the opportunity to provide comments on the revised draft report of March 3, 2003, entitled *Department of Housing and Urban Development: Status of Efforts to Implement an Integrated Financial Management System* (GAO-03-447R). We appreciate the revisions made to address many of our February 21<sup>st</sup> comments on the original February 7<sup>th</sup> version of the draft report. We are reiterating a few comments that were not fully addressed and request that the final report: 1) reflect HUD's position on the adequacy of the Department's current financial management systems integration design, and 2) provide greater recognition of the many substantive financial management systems improvements made by HUD during the 12 year period covered by this review. We generally agree with the recommendation contained in the draft report and request recognition of the actions the Department has already taken to implement the recommendation.

Our specific comments are summarized below with further details in the enclosed table.

Financial Management Systems Integration Requirements

The revised draft report incorrectly implies that HUD is required to have one departmental financial management system encompassing Federal Housing Administration (FHA), Government National Mortgage Association (Ginnie Mae) and all other HUD program activity. Office of Management and Budget (OMB) Circular A-127, *Financial Management Systems*, states that: "The term 'single integrated financial management system' means a unified set of financial systems and the financial portions of mixed systems encompassing the software, hardware, personnel, processes (manual and automated), procedures, controls and data necessary to carry out financial management functions, manage financial operations of the agency and report on the agency's financial status to central agencies, Congress and the public." This definition allows that large, diverse and complex agencies such as HUD may have a set of multiple financial management systems that are integrated through manual or automated processes for consolidated reporting purposes.

See comment 1.

See comment 2.

See comment 1.

In HUD's current business environment, the HUD Central Accounting and Program System (HUDCAPS), and its various supporting subsidiary systems such as the Program Accounting System (PAS), serve as the Department's core financial management system. FHA and Ginnie Mae have separate program funding and operations and are required by statute to produce their own annual audited financial statements. HUD currently integrates the stand-alone FHA and Ginnie Mae financial statement information with HUDCAPS information on HUD's general program activity through the Hyperion software used to facilitate HUD's consolidated financial reporting process. This makes perfect business sense for HUD, and is an acceptable model for private sector conglomerates and at other federal agencies that include government corporations or large separate funds such as Ginnie Mae and FHA. While the loading of FHA and Ginnie Mae reporting data is currently done manually, the manual process is low-risk with compensating controls, including the Office of the Inspector General's (OIG) independent financial statement audit. Nevertheless, as recommended by the OIG, HUD is pursuing a more efficient automated transfer of the FHA and Ginnie Mae reporting information for consolidation in Hyperion.

Past HUD Efforts to Implement an Integrated Financial Management System

HUD agrees that the 1991 Financial Systems Integration (FSI) project was not successfully implemented as originally envisioned or designed. However, the draft GAO report incorrectly implies that achieving the now twelve-year old FSI project design is a prerequisite for HUD's compliance with current federal financial management systems requirements. We believe alternative financial management systems designs can work to meet HUD's needs, in full compliance with federal requirements. It is apparent from GAO's overview of the FSI project history that the project never gained widespread support and the feasibility and reasonableness of the proposed large scale overhaul of the Department's financial and mixed information systems and corresponding business processes was questioned from early on in the FSI project. As the draft report describes, this led to a series of project changes that limited the project's focus to needed improvements to HUD's core financial management system.

The GAO report should acknowledge that significant financial management systems improvements were made from 1991 to date, as evidenced by the fact that the Department moved from being an agency that could not produce auditable consolidated financial statements prior to fiscal year 1991, to an agency that received its first unqualified audit opinion in fiscal year 1998, with unqualified audit opinions for the last three consecutive fiscal years—2000 through 2002. HUD's core financial management systems improvements since 1991 have included: 1) the ability to post to the Standard General Ledger (SGL) at the transaction level for HUD's general program activity, 2) full automation of the reporting of cash management activity with the Treasury, 3) monthly reconciliation of the funds balance with Treasury, 4) elimination of duplicate data entry in areas such as travel expense, through integration of source systems with the general ledger, 5) improved reporting through data warehousing, and 6) expanded electronic commerce through Internet-based payment and reporting processes for recipients of HUD funds. While the revised draft report focuses primarily on the HUDCAPS general ledger

See comment 3.

See comment 4.

component of the FSI project, other GAO reports have recognized HUD's successful development and deployment of many other FSI project efforts that have provided needed support for the Department's Section 8 financial and program management functions, community planning and development grants, the procurement process, and other HUD program areas. Since 2000, HUD's efforts have been focused on stabilizing and enhancing the existing financial management systems operating environment to overcome the audit disclaimer issues from fiscal year 1999 and to eliminate several reportable conditions from the OIG's annual financial statement audits.

#### Current Financial Management Systems Challenges at HUD

While HUD agrees that the Department's core financial management system has inefficiencies and is costly to maintain, our internal assessments conclude that the core financial management system is substantially compliant with the requirements of the Joint Financial Management Improvement Project (JFMIP). As GAO acknowledges, the FHA Subsidiary Ledger Project is well under way to replace FHA's commercial accounting system with a system that is fully compliant with federal requirements. It should be further acknowledged that HUD has timely produced auditable consolidated financial statements, and has received unqualified audit opinions on those statements, for the past three fiscal years. Furthermore, the completion of the audit of HUD's fiscal year 2002 consolidated financial statements was successfully accelerated by one month to January 31, 2003. The accelerated audit was augmented by HUD's preparation of mid-year consolidated financial statements in fiscal year 2002, and HUD has begun the preparation and submission of quarterly statements in fiscal year 2003. HUD is planning to further accelerate the preparation and audit of its fiscal year 2003 statements as a step towards the mandated accelerated annual reporting date of November 15, 2004, for fiscal year 2004.

Although HUD has made great progress towards the objective of producing more timely, accurate and relevant financial information for effective management of the Department, we fully acknowledge that the challenge remains to eliminate the remaining material weakness and reportable condition issues reported in the OIG's audit of the Department's consolidated fiscal year 2002 financial statements. In some cases, HUD's ability to correct these internal control weakness issues, such as the need to improve FHA's controls over budget execution and funds control, is clearly dependent on needed financial management systems improvements. Other weakness issues, such as controls over obligation balances, require program process improvements to better use existing financial management systems capabilities and to provide more timely information to existing systems to strengthen management controls and improve decision making on some funded activities. The draft GAO report lacks specificity on the nature of HUD's remaining financial management systems weaknesses and does not identify any other financial management systems needs not already reflected in the OIG's fiscal year 2002 consolidated financial statement audit report.

See comment 1.  
See comment 4.

See comment 5.

HUD's Commitment to Meeting Financial Management Systems Needs

Financial management systems improvements are a top priority for HUD and this administration. We have focused our attention and the necessary resources on addressing HUD's most significant financial management systems needs, those in FHA, and on planning for other needed improvements. The FHA Subsidiary Ledger Project is the key to bringing HUD into substantial compliance with federal financial management requirements by addressing FHA's need to implement the SGL at the transaction level and provide adequate systems support for budget execution and funds control and credit reform accounting. We successfully completed a major milestone of this project on-schedule in October 2002, to provide FHA with a new operating general ledger system that had been in various planning stages for nearly a decade.

The current administration has taken a deliberate and methodical approach to properly planning for the next generation core financial management system for the Department. While the draft report correctly indicates that HUD deferred action on an August 2000 vision for the next generation core financial management system, it does not fully explain the basis for that decision and the long-term benefits anticipated from allowing for proper systems planning. Since the August 2000 systems vision was developed at the end of the prior administration, the incoming administration wanted to study the proposal before making the significant resource commitment necessary to carry out the proposal or desirable alternatives. Furthermore, the HUD OIG specifically recommended that action on the vision be deferred pending further study of the feasibility, risk and cost-benefit of various options for the next generation core financial management system.

As HUD's new Chief Financial Officer, my decision to defer action on the vision and further study the Department's systems options was supported by the GAO's own conclusion that the previous HUD FSI Project failed to achieve its original objectives due, in part, to a lack of finalized plans and outdated benefit-cost analysis. In revisiting the August 2000 vision, I wanted to consider FHA's related experience on the FHA Subsidiary Project and perform benchmarking of other agency experiences with consideration of best practices and lessons learned. Additional reasons for not rushing to implement the vision included the need to assess the possible impacts of new OMB directed financial management systems initiatives, and to coordinate with the HUD Chief Information Officer's efforts to develop the "as is" and "to be" Enterprise Architecture for the financial management segment of the Department. We believe that the time we are devoting to properly planning the HUD Integrated Financial Management Improvement Project (HIFMIP) will enable HUD to better achieve its objective for a more efficient and effective financial management systems operating environment that better meets the Department's business needs and complies with federal requirements.

With respect to the proposed GAO recommendation in the draft report, the Department has already taken the actions needed to address it. Improved integration of the Department's financial management systems is a top priority for the Department, as evidenced by the inclusion of both the FHA Subsidiary Ledger and HIFMIP efforts in the

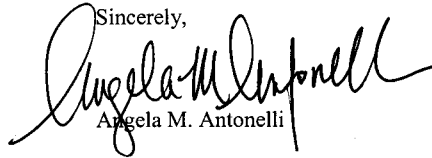
See comment 6.

See comment 1.

President's Management Agenda for HUD. I established a HIFMIP Executive Advisory Committee consisting of principals that would be directly impacted by this effort, including FHA and Ginnie Mae, with an advisory role for the HUD OIG. A kick-off meeting of the committee was held on January 8, 2003 and a working level group is being formed to include all stakeholders. An Assistant Chief Financial Officer for Systems with a wealth of project management and systems implementation experience was hired in October 2002. Reporting to him is a Project Manager hired for the HIFMIP effort in February 2003. HUD plans to award the HIFMIP support contract by May 2003, with work completed on the HIFMIP Vision by January 2004 and feasibility studies with a systems recommendation by July 2004. Initial project milestones and measurable performance indicators have been established and will be refined and tracked for all aspects of HIFMIP. HUD has been working diligently over the past two years to fund, improve and plan further needed improvements to the Department's financial management systems.

As you complete your review and final report, we request full consideration of our comments in providing an accurate and balanced assessment of HUD's continuing financial management systems needs and efforts to meet those needs. If you or your staff has questions, please contact James M. Martin, Assistant Chief Financial Officer for Financial Management, on (202) 708-0614, extension 3706.

Sincerely,



Angela M. Antonelli

Enclosure



## Appendix I

The following are our comments on HUD's letter received on March 11, 2003.

### **GAO Comments**

1. See "Agency Comments and Our Evaluation" section of this report.
2. HUD provided additional technical suggestions which were incorporated as appropriate.
3. Our report does not advocate or imply that achieving a 12-year-old project design is a prerequisite for HUD's compliance with current federal financial management systems requirements. Our report discusses why HUD's past systems implementation effort had not been successful so that past mistakes would not be repeated in future systems implementation projects. The recommendations made in our 1998 report were conceptual in nature and would be applicable to any systems development initiative that HUD chooses to pursue.
4. Our report acknowledges HUD's unqualified opinions on its financial statements as well as its ability to issue these statements by the required due dates for the last 3 fiscal years. Our point is that HUD's current process for producing financial statements is not efficient because its current financial management systems are outdated and require manual intervention. Further, these systems do not provide timely, reliable, and useful information to manage the agency on a day-to-day basis, which is the end goal of the CFO Act and a prerequisite to good financial management.
5. The objective of our report was to convey the nature of HUD's financial management systems needs rather than to identify specific weaknesses. These specific weaknesses are clearly outlined in the OIG's recent audit report on the fiscal year 2002 financial statements.
6. We agree that planning is essential to the success of any systems implementation project, which is clearly stated in our report.

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