

# Agency Comments on Draft Internal Control and Compliance Report



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

OFFICE OF THE CHIEF FINANCIAL OFFICER

FEB 16 2001

MEMORANDUM FOR: James A. Heist, Director, Financial Audits Division, GAF

*Maureen Harris for*  
FROM: Victoria L. Bateman, Deputy Chief Financial Officer, F

SUBJECT: Management Comments on OIG's Draft Report on HUD's Fiscal Year 2000  
Financial Statements - Internal Control and Compliance Sections

I am writing to provide the Department's official comments on the subject draft report, which was provided to us on February 2, 2001. The report acknowledges the Office of the Chief Financial Officer's (OCFO's) significant progress in completing the reconciliation of the fiscal year 1999 and 2000 fund balance with Treasury accounts, and providing for an on-going monthly reconciliation process. While your staff had not fully completed their audit work upon issuance of the draft report, as of the date of this response, we are unaware of any audit issues that would preclude the Office of Inspector General's (OIG's) issuance of an unqualified or clean audit opinion on the Department's fiscal year 2000 consolidated financial statements. While receipt of an unqualified opinion is important in restoring confidence in our financial statements for Office of Management and Budget (OMB), Congressional and public users, we are very mindful of the financial management discipline and vigilance required to maintain that confidence, and of the need for continued progress in resolving remaining material management control weaknesses (MWs) and reportable conditions (RCs) still associated with our underlying financial management operations.

We generally agree with the OIG's presentation of findings and recommendations in the subject draft report, subject to our detailed comments in Attachment No. 1 and the remainder of this memorandum. Attachment No. 2 is provided to compare the inventory of MW/RC issues reported in OIG's FY 1999 consolidated financial statement audit report with our understanding of the MW/RC issues reflected in both the subject draft report and the related draft internal control report from the OIG's contracted audit of the Federal Housing Administration's (FHA's) FY 2000 financial statements. The comparison shows that one MW (FHA's Federal Basis Accounting and Budgeting) and two RCs (Single Family Mortgage Notes Servicing and FHA Reserve Estimates) were eliminated from OIG's reporting. HUD management concurs with this reported progress. However, we request your reconsideration of your final report presentation on remaining MW/RC issues in the following areas:

#### Financial Management Systems Deficiencies

We believe revisions are warranted in the section captioned "Material Weakness: HUD's Financial Systems are Not Fully Compliant with Federal Financial Standards." As supported in our detailed comments, HUD's core financial system is substantially compliant with the Federal Financial Management Improvement Act of 1996 (FFMIA), and related requirements of the Joint Financial Management Improvement Program (JFMIP). Our comments are based upon OCFO's own updated assessment of the core financial system's compliance with FFMIA/JFMIP requirements. We briefed you on the results of that assessment on February 9, 2001. We are unaware of any weakness in our core financial system that had a demonstrated impact on our ability to prepare auditable FY 2000 financial statements that were free of any material misstatement. However, we do acknowledge inefficiencies in the structure and operation of our financial and mixed systems, and have plans to improve systems functionality and integration to enable us to better carryout our financial management responsibilities, with further reduced risk of error. In light of our updated assessment and detailed comments, we ask that you reevaluate the nature and significance of the specific financial management systems deficiencies disclosed during the audit, and make necessary revisions in the final report.

#### Controls Over Rental Housing Subsidies

The draft report presents residual and new issues on the original MW on Multifamily Housing Monitoring and the RC on Public Housing Monitoring, and combines them into a restated MW on Rental Housing Subsidy Calculations. Given the overlapping relationships between this restated MW and both the separate existing MW on Tenant Income Verification and RC on Project-Based Subsidy Payments, HUD management believes that all of these interrelated MW/RC issues should be combined into a single MW on Controls Over Rental Housing Subsidies. We discussed this issue with you in a meeting on February 14, 2001, and understand how you came to report these as separate issues in the context of your financial statement audit work. However, for program managers, it makes more sense for these interrelated issues to be combined and addressed with a comprehensive corrective action plan. Accordingly, Column 3 of the chart in Attachment No. 2 reflects how HUD management plans to report remaining MWs and Management Concerns (MC) under the Federal Managers' Financial Integrity Act (FMFIA) - to include a combined MW on Controls Over Rental Housing Subsidies. OIG is asked to similarly combine these interrelated rental subsidy control issues in its final report on internal control and compliance.

I want to thank you and your audit staff for the collaborative working relationship we experienced on this year's audit. Our respective staffs, as well as other staff through-out the Department, worked hard to support the preparation of HUD's FY 2000 consolidated financial statements, and the completion of the OIG's independent audit of those statements, by the pending statutory deadline of March 1, 2001. The rigor of the independent audit process assists HUD management in validating the effectiveness of our systems of internal control and identifying control weaknesses in need of corrective action.

Should you or your staff have any questions on our comments, please contact James M. Martin, Deputy Assistant Chief Financial Officer for Financial Management, on (202) 708-0614, extension 3706.

Attachments

## Detailed Comments on OIG Draft 2000 Internal Control &amp; Compliance Report

No.	Draft Report Reference	Management Comments for OIG's Consideration
1.	Page 1, 1 <sup>st</sup> sentence	<p>The lead sentence of the draft internal control and compliance report states that: "Most of the material weaknesses and reportable conditions discussed in this report are the same as those included in prior year's reports on HUD's financial statements." While technically correct, this wording, which has been unchanged by the OIG over the past several financial statement audits, gives the reader a false sense that HUD has not made progress in correcting previously identified material weaknesses and reportable conditions. To the contrary, OIG's own annual audit reports chronicle that HUD has made continuous progress in reducing the number of material weaknesses. Over the period 1997-2000, HUD reduced the number of material weaknesses from 11 to 8 to 5 to 4, with reductions in reportable conditions, too. Please consider a more balanced lead statement, such as: "While HUD continued to make progress in correcting previously identified material weaknesses and reportable conditions, most of the remaining conditions discussed in this report were included in prior years' reports on HUD's financial statements."</p>
2.	Page 2, Other control environment issues, last sentences	<p>We appreciate the OIG's acknowledgment that "HUD has continued to improve the operation of its management control program". While we agree that there are still some issues concerning the management control program that warrant the attention of management, we believe those issues should be communicated separately (as indicated in the draft write-up), and not discussed in this section. While the write-up does state that "this issue is no longer reported as a reportable condition"; discussion of this issue next to statements such as "Another reportable condition..." and "...the remaining material weakness and reportable condition..." could confuse users of this report as to the actual nature of any remaining problems. Please consider deleting any discussion of the management control program from the final report, and proceed with your plan to separately communicate any remaining management issues to us.</p>
3.	Pages 2-6, "Material Weakness: HUD's Financial Systems are Not Fully Compliant with Federal Financial Standards"	<p>We do not agree that the draft report supports this finding as a Material Weakness. While management recognizes that HUD's financial management systems are not fully efficient, the core financial system substantially meets the specific requirements of OMB Circular No. A-127 (A-127). The draft report classifies this finding as a Material Weakness based on the following five sub-findings on non-compliance with A-127 and JFMIP core financial system requirements, which are not well-founded, as discussed below and in other parts of this attachment:</p> <ol style="list-style-type: none"> <li>1. <u>"Important interfaces with the core financial system's general ledger are not automated."</u> A-127 requires compliance with JFMIP core system requirements, which do not require interfaces to be automated. See discussion under Comment 5 of this attachment.</li> <li>2. <u>"Weaknesses still remain in the core system's general ledger."</u> - The OIG report stated that "OMB Circular A-127 requires that financial reports be derived directly from the general ledger accounts". However, this criteria is not correctly quoted. A-127 requires that financial reports be <b>traced</b> directly to the SGL accounts. The Department's core financial system fully complies with this requirement. The SF-224 financial report can be traced directly to the HUD SGL accounts. See discussion under Comment 8 of this attachment.</li> <li>3. <u>"HUD has made progress in addressing fund balance with Treasury reconciliation problems."</u> - While the OIG report cites that cash reconciliations were not completed in a timely manner for portions of FY 2000, the report recognizes that the Department has</li> </ol>

	<p>made significant progress and does not cite any remaining significant weaknesses with this process. See discussion under Comment 10 of this attachment.</p> <p>4. <u>"FHA/Office of Housing's plans for financial system improvements lacked the prerequisite SDM evaluations."</u> - The report cited that FHA did not adequately complete the requisite documentation required by the SDM. FHA did follow the SDM for its part in the core FMS COTS purchase. The requisite documentation was provided to the OIG along with the Deputy Secretary's response in November 2000. The OIG subsequently issued a follow-up memorandum dated January 17, 2001, which cited various deficiencies with the documentation. With its most recent response to the OIG, dated February 9, 2001, FHA has included updates to the SDM documents that addressed the noted deficiencies. See discussion under Comment 12 of this attachment.</p> <p>5. <u>"The Department's plans for improving its core financial system continue to suffer from strategy changes."</u> This section misrepresents actual management actions and intentions with respect to HUD's core financial system. The Department's strategy changes for improving financial management systems are consistent with the requirements of A-127. See discussion under Comment 13 of this attachment.</p> <p>The discussion provided by the OIG concerning JFMIP requirements exceeds the guidance provided on January 4, 2001, by the Office of Management and Budget's (OMB) "Revised Implementation Guidance for the Federal Financial Management Improvement Act" to the Heads of Executive Departments and Establishments, Chief Financial Officers, and Inspectors General. This guidance was immediately effective upon date of issuance and is to be used for financial reports and audits for Fiscal Year 2000 and thereafter. It emphasized that the FFMIA "was intended to advance Federal financial management by ensuring that Federal financial management systems can and do provide reliable, consistent disclosure of financial data, and that they do so on a basis that is uniform across the Federal government from year to year consistently using professionally-accepted accounting standards." The guidance stated that: "Some of the financial management systems requirements listed in Section 7 of Circular A-127, while important, are not essential to the particular requirements of FFMIA. As noted above, the Act was intended to ensure that agencies develop and use systems that generate reliable, timely and consistent information necessary for Federal managers' responsibilities. Agencies that can:</p> <ul style="list-style-type: none"> <li>§ Prepare financial statements and other required financial and budget reports using information generated by the financial management system(s);</li> <li>§ Provide reliable and timely financial information for managing current operations;</li> <li>§ Account for their assets reliably, so that they can be properly protected from loss, misappropriation, or destruction; and</li> <li>§ Do all the above in a way that is consistent with Federal accounting standards and the Standard General ledger are substantially compliant with FFMIA.</li> </ul> <p>In determining whether an agency's financial management systems substantially comply with FFMIA, management and auditors need to consider whether a system's performance prevents the agency from meeting the specific requirements of FFMIA as listed above. Identified deficiencies that do not prevent the agency from meeting the above requirements generally should not be considered as part of a FFMIA compliance determination. Auditors then need to use judgment in assessing whether the adverse impacts caused by the deficiencies are instances of substantial noncompliance with FFMIA."</p> <p>Under this new guidance, the OIG's draft internal control report does not provide any evidence that the deficiencies identified in the report prevented the agency from meeting</p>
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		<p>the requirements cited above. Accordingly, we request that OIG reconsider its evidence and position on both HUD’s FFMIA compliance and the specific nature and materiality of remaining financial management systems deficiencies.</p>
<p>4.</p>	<p>Page 3, Paragraph 2</p>	<p>HUD's core financial system is <b>substantially</b> compliant with Joint Financial Management Improvement Program (JFMIP) core financial system requirements. The Federal Financial Management Improvement Act of 1996 and JFMIP <i>Core Financial System Requirements</i> require "substantial compliance" with Federal financial system requirements--not full compliance.</p> <p>The OCFO conducted Joint Financial Management Program (JFMIP) analysis in April-May 2000. We reviewed HUDCAPS in light of the OIG findings presented in the Fiscal Year (FY) 1999 financial statement audit report. We focused our review on HUDCAPS and the functions and processes surrounding the system as they related to the JFMIP Core Financial System Requirements. In addition to HUDCAPS, we reviewed PAS/LOCCS because it is a principal component of the core financial system. We limited our review of the FHA's financial management system to those system issues contributing to the findings in the OIG's financial statement audit report.</p> <p>The review included the 252 requirements related to the following JFMIP Core Financial System functions:</p> <ul style="list-style-type: none"> <li>· Core Financial System Management</li> <li>· General Ledger Management</li> <li>· Funds Management</li> <li>· Payment Management</li> <li>· Receipt Management, and</li> <li>· Reporting</li> </ul> <p>We concluded that HUD’s core financial system is substantially compliant with JFMIP requirements. Our initial results (May 2000) concluded that the core financial system was not substantially compliant with 27 out of the 252 JFMIP requirements. However, during the intervening period (June through November 2000), substantial progress was made to improve HUDCAPS and its interfaces. At this point, we conclude that HUD’s core financial system is not compliant with only 2 out of the originally identified 27 requirements. (A third item, an automated SF-224 process, is ready for HUD to implement the US Treasury’s new bulk transfer process; however, it has not been used because US Treasury has not been prepared to receive the information electronically. The process is scheduled to occur in February 2001, for the February 2001 SF-224s.) However, the corrective action plans identified, when fully completed, will resolve these non-compliance issues.</p>
<p>5.</p>	<p>Page 3, 6 bullet points at bottom of page</p>	<p>We ask that the OIG reconsider this list of 6 systems deficiencies to (i) eliminate or address any redundant or overlapping issues, (ii) assure all points are valid, and (iii) provide management with appropriate details in support of each bullet in the discussion section that immediately follows. Please consider the following:</p> <ul style="list-style-type: none"> <li>• The first, fourth and sixth bullet are all deficiencies that relate to the FHA’s subsidiary ledger system, and management’s chosen systems solution for those deficiencies is the same. This relationship should be clarified in the report.</li> <li>• We are interested in details regarding any reported systems deficiencies that necessitate duplicate data entry or reprocessing, as alluded to in bullet points three and six. To the extent such specific details are not added to the report to support the bullet points, the bullets should be deleted or revised.</li> <li>• Regarding the fourth bullet, the OIG’s wording should be made consistent with the pending FY 2000 FHA Independent Auditor’s Report, which currently identifies this item under the heading, “FHA has Improved its Controls Over Budgetary Funds” in the section entitled, “Resolution of Prior Year Material Weaknesses and Reportable</li> </ul>

		<p>Conditions.” The auditors’ report goes on to state that, “On July 3, 2000, FHA submitted a short-term plan to OMB and implemented the plan to address all major funds control deficiencies identified in the fiscal year 1999 Independent Auditors’ Report.” Furthermore, the Auditors’ Report states that, “Improvement was made in financial systems and processes to ensure accounting and budget information are properly presented and accurate, and timely information is available to management for funds control and decision-making purposes.”</p> <ul style="list-style-type: none"> <li>Regarding the sixth bullet, it should be noted that JFMIP does not require an automated interface from feeder systems. JFMIP allows for transactions from feeder systems to be summarized and fed into the core financial system’s general ledger following SGL requirements through an automated or manual interface. However, from an overall A-127 compliance standpoint, we agree on the need to pursue improved automation and efficiencies in our financial management systems structure, and have a systems vision and plans to address this need.</li> </ul>
6.	Page 4, 1 <sup>st</sup> para., last sentence	<p>The draft language “The interface with the FHA system has not improved from last year and still requires the same numerous manual processing steps to transform the account balances” does not reflect the substantial progress made during FY 2000.</p> <p>FHA improved its upload process in FY 2000 by developing and implementing new procedures for quarterly uploads of FHA account balances and activity. Previous procedures addressed a once per year upload of account balances at year-end. These process improvements required substantial coordination and buy-in from FHA, HUD CFO and the technical support providers. This effort involved a substantial up-front investment of time.</p> <p>The new procedures and improvements include all areas of the process and have specific focus on reducing the manual processing steps required. For instance, FHA reprogrammed and reformatted their subsidiary ledger into a format that facilitates the import of FHA financial data into the database where the process of transforming FHA Commercial GAAP data into Federal GAAP occurs. This eliminated the previous time consuming requirement to strip off unneeded header data and manually array the required FHA account balances and activity. In addition, FHA gained efficiencies in the transformation process by using a database query to automate the identification and execution of FHA account balances that will be transformed to Federal GAAP basis. Further, FHA eliminated some duplication of effort by consolidating all areas of FHA responsibility with one technical support provider.</p> <p>In addition, during FY 2000, FHA began to record its administrative contract transactions in HUDCAPS. In previous years, this data was maintained in a FHA subsidiary system and uploaded to HUDCAPS at year-end. It is now reflected in HUDCAPS on a real-time transaction-based level.</p>
7.	Page 4, Paragraph 2, last 2 sentences	<p>This section should be dropped or clarified. During the FY 1999 audit, there were almost 12,000 PAS documents in the Document Suspense File (SUSF). As of May 1, 2000, the OCFO had reduced the number of PAS documents in SUSF to 99. Since that time, the number has generally been maintained below 100, and has been in the 20-40 document range for the past month. There will always be a need for analyzing and processing rejected transactions and suspense items. That is part of the normal process in every financial management system.</p>
8.	Page 4, 3 <sup>rd</sup> paragraph, 1 <sup>st</sup> sentence	<p>This sentence should be corrected to read that: OMB Circular A-127 requires that financial reports be <b>traced</b> directly to the SGL accounts. The Department's core financial system fully complies with this requirement. The SF-224 financial report can be traced directly to the HUD SGL accounts.</p>
9.	Page 4, end of paragraph 3	<p>Please acknowledge that HUD has developed an automated SF-224 process, and that it has not yet been used because US Treasury was not prepared to receive the information electronically, in bulk format.</p>

10.	Page 4, Paragraph 4, continues to Page 5	We agree with the OIG that significant progress has been made in performing cash reconciliations. The unexplained differences between the Department's general ledger and the fund balance with Treasury records have been reduced to a non-material amount. In addition, detailed reconciliation procedures have been developed, and on February 8, 2001, the OCFO's contractor provided training to the HUD accounting staff to assume full responsibility for cash reconciliations.
11.	Page 5, 1 <sup>st</sup> full para., last 4 sentences	<p>Beginning with the sentence "During fiscal year 2000 ..." the OIG's wording should be revised to paraphrase relevant information from the pending FY 2000 FHA Independent Auditor's Report, which states:</p> <p>"FHA is in the process of developing plans to implement a new FHA general ledger, which will be compliant with Joint Financial Management Improvement Project requirements. The first phase of implementation is scheduled to be completed by March 2002 at which time the new general ledger will post SGL transactions and interface automatically with the HUD departmental general ledger. Full implementation of the long-term plan is targeted for December 2005 at which time the new subsidiary ledger is expected to interface directly with FHA operational insurance systems."</p> <p>Furthermore, the February 2000 FHA Vision of Financial Management provides a clear picture of the direction and objectives of the FHA Subsidiary Ledger project. As is noted in the FY 2000 FHA Auditor's Report, the FHA Vision of Financial Management is "comprised of a short-term and long-term plan. The short-range plan consists of an array of activities designed to improve budgetary and funds control processes and to address various management deficiencies identified by the audit to lay the foundation for implementation of the new subsidiary ledger."</p> <p>In addition, it should be noted that the proposed FHA architecture solution does not involve a data warehouse. From a technical definition standpoint, the Financial Transaction Repository (FTR) is not a data warehouse.</p>
12.	Page 5, 2 <sup>nd</sup> full paragraph	<p>This paragraph should be replaced to more correctly and completely reflect actual circumstances. As noted in the Deputy Secretary's November 9, 2000 response to the OIG audit memorandum referenced on Page 6 of this OIG draft report, FHA did follow the SDM for its part in the core FMS COTS purchase. The requisite documentation was provided to the OIG along with the Deputy Secretary's response. The OIG subsequently issued a follow-up memorandum dated January 17, 2001, which cited various deficiencies with the documentation. With its most recent response to the OIG, dated February 9, 2001, FHA has included updates to the SDM documents that addressed the noted deficiencies.</p> <p>In addition, a Technical Review Analysis of the FHA Subsidiary Ledger project conducted by HUD's Systems Engineering, Oversight and Performance Management Division (SEOPMD), as part of the recent quarterly IT Portfolio Control Review, found the project to be fully in compliance with HUD standards for systems development. FHA received a rating of "outstanding" in all categories evaluated by SEOPMD.</p> <p>We disagree with the OIG's contention that FHA cannot be assured that the system selected will effectively or efficiently meet its objectives. The COTS package selected is JFMIP-compliant; thereby ensuring that FHA will have a system that complies with the FFMIA requirements for:</p> <p style="padding-left: 40px;">"(1) Federal financial management system requirements,  (2) applicable Federal accounting standards, and  (3) the Standard General Ledger (SGL) at the transaction level."</p>
13.	Page 3, 2 <sup>nd</sup> full paragraph, sentence	A systems vision for the next generation core financial management system was developed, with the purpose of realizing greater integration and efficiencies in financial management systems operations. The vision was based on a projected expanded use of

	regarding management's plans for additional improvements and Pages 5-6, Section on the Department's Plans for the Core Financial System	<p>an FMS COTS package that had been purchased for FHA's use under an economical licensing agreement that could also serve the interests of GNMA and the Department as a whole. All of the OCFO's long-range plans for implementation of additional FMS COTS modules over the three year period of the vision are subject to further information technology capital investment decision making and related adherence to the discipline of HUD's Systems Development Methodology (SDM). The report should be revised to reflect this management commitment.</p> <p>The section on pages 5-6 misrepresents actual management actions and intentions with respect to HUD's core financial system. The section should be revised to correctly reflect that the OCFO re-scoped the FSI Project in April 2000, to transfer the non-financial DGMS and EIS components to CIO for sponsorship and development, enabling OCFO to complete the FSI Project on November 30, 2000, establishing HUDCAPS as the core SGL system for the Department, in substantial compliance with JFMIP requirements. These actions met the OCFO's short-term objective of establishing a stabilized systems environment capable of supporting the preparation of auditable consolidated financial statements for the Department.</p>
14.	Page 7, last para.	<p>The paragraph on the Enforcement Center's (EC) input to the accountability report should be dropped because no problems were disclosed with the information reported by the EC, or the underlying support for that information. The issue identified was that, at the time the FY 1999 Accountability Report was prepared, the EC did not have an automated system to track all of the data elements reported. The OIG review acknowledged that such a system was under development and, in lieu of making a recommendation, refers to an earlier review of the EC. This earlier review recommended that the EC (1) re-evaluate the viability of developing a HUD-wide system to track enforcement actions and (2) implement controls that require consistent and accurate reporting of tracking data. Corrective action has been completed on both of these recommendations and an automated tracking system is now in place.</p>
15.	Page 8	<p>Regarding Data Quality weaknesses referenced on page 8, the OCIO is providing the following Data Quality Improvement Program Status:</p> <p>The strategy for FY 2000 changed from having all program offices submit data quality plans to a strategy focused on "selected mission critical systems identified by the Data Control Board (DCB)." The focus will be to address those systems containing mission critical, core financial data elements, and to address audit issues and reportable conditions of the HUD financial management system. The DCB, comprised of program area representatives, with the CIO and CFO as co-chair persons, selected the following for Data Quality Plan development in FY 2000:</p> <ul style="list-style-type: none"> <li>• Phase I mission-critical systems for Data Quality Plan development in FY 2000:</li> <li>• HUD Central Accounting and Program Systems (CFO);</li> <li>• Federal Housing Administration Subsidiary Ledger/MSA (Housing);</li> <li>• REMS (Housing);</li> <li>• Tenant Eligibility Assessment Sub-System (REAC).</li> </ul> <p>These four plans were completed and approved by the Technology Investment Board Executive Committee (TIBEC) on September 29, 2000. Additional accomplishments in FY 2000 included the approval by the DCB of their Charter, prioritization and scheduling of additional data quality plans, and scheduling of draft data quality policies, procedures and guidelines. The DCB approved nine mission-critical systems for completion of Data Quality Plans by September 30, 2001.</p>
16.	Page 9, Page 25	<p>The draft report contains two sections, "Housing Assistance Program Delivery" and "Verification of Subsidy Payments" that we believe are interrelated and redundant. The majority of comments in the "Housing Assistance Program Delivery" section relate to issues with the verification of subsidy payments, and therefore should be included in the "Verification of Subsidy Payments" section. (We disagree with a number of these comments, as discussed below) The remaining OIG discussion in the "Housing Assistance Program Delivery" section relates to Multifamily monitoring issues</p>



		<p>concerning properties' physical or financial condition. Both the OIG and KPMG audit teams have acknowledged the significantly improved controls in this area. While specific issues with statements in the draft report are further discussed below, the best evidence that comments on Multifamily monitoring of physical or financial condition should be removed from the report is from the IG's own draft report for the FHA Audit, which states that the "additional tools implemented by FHA...have substantially improved the ability of management to manage its portfolio of Multifamily projects". This progress resulted in the removal of a reportable condition related to early warning and loss prevention for Multifamily properties. We request that OIG revise the draft report on the consolidated HUD audit to similarly remove this area from any discussion on remaining material weaknesses or reportable conditions.</p>
17.	Pages 10 & 50	<p>It is important to note that the Quality Control study referenced on pages 10, 50 and elsewhere is an interim report that has not yet been finalized. PD&amp;R distributed the report for internal review and comment by HUD staff in mid-January 2001. A revised interim version of this report, which contains additional information and clarifications in response to initial comments, will be provided to program staff for review on February 16, 2001, and it is hoped that a final report can be released within two months of that date. It should be further noted this study has not been subjected to independent verification and validation, by OIG or other sources.</p> <p>It should be clarified that the study was primarily designed to measure the extent of administrative error by housing providers, and was not performed for the purpose of estimating and disclosing in HUD's financial statements the extent of excess rental subsidies paid by HUD during fiscal year 2000, nor to measure how much additional tenant contributions could be realistically collected in a cost-efficient manner. The extent of the identified error is sensitive to a number of assumptions made in the study; modest changes in the error threshold, for example, can significantly affect the overall dollar error estimate. Perhaps more importantly, it is likely that some portion of the tenants with large increases from correctly calculated rents will leave the program, nullifying the potential offsets, while those with decreases in their rents will likely remain, possibly increasing costs.</p> <p>In our view, the most appropriate use of this study is as a tool for strengthening HUD's procedures for ensuring administrative compliance with regulations. Significant reductions in error can only be expected after progress is made in providing the type of rule simplifications and additional instructions, forms, and training discussed in the report. Even with prompt action, it will likely take several years for measurable results to be experienced.</p> <p>Lastly, please clarify that the study's estimated amount of subsidy overpayments will not necessarily be available for budgetary reductions or program cost recoveries. The low-income nature of the assisted population, and the cost of the pursuit of recovery, make even modest levels of cost recoveries unlikely from a cost-benefit perspective, based on prior HUD pilot project experiences. HUD has numerous actions in-process and under consideration to reduce all sources of subsidy payment error, to better assure that payments are made in accordance with program statutory and regulatory requirements and intent.</p>
18.	p. 11	<p>The second paragraph notes that "HUD provides grants and subsidies to approximately 3,200 HAs nationwide. While this statement is essentially correct with respect to housing agencies that administer <i>public housing</i>, it fails to account for the fact that there are another approximately 1,000 HAs that administer Section 8 or moderate rehabilitation programs, but not public housing.</p> <p>The following is the latest information we have on the number of public housing agencies, based on the December 2000 files of the MTCS, which takes its information from</p>

		<p>HUDCAPS and the PIH integrated business system, PIC.</p> <p>1610 Public housing only  802 Section 8 tenant based only  12 Mod Rehab only  1115 Public Housing plus Section 8 tenant based  4 Public housing plus Mod Rehab  440 Public housing plus Section 8 tenant based plus Mod Rehab  204 Section 8 tenant based plus Mod Rehab</p> <p>TOTAL = 4,187</p> <p>All counts above are for non-Indian housing agencies. There were approximately 200 Indian housing agencies (IHAs) at the time of implementation of NAHASDA. In addition, when you count TDHEs, which are tribally designated housing entities, there are many more than 200 local agencies delivering housing assistance in Indian areas at the present time.</p>
19.	Pg. 12, third paragraph, last sentence.	<p>This section should acknowledge that REAC's Public Housing - Financial Assessment Subsystem (PH-FASS) captures all IPA audit findings, questioned costs and corrective action plans for PHAs, and also deducts points from the PHAS scores for open findings. This information could be integrated with PIC to support PIH field office follow-up and resolution tracking efforts, to the extent such actions are part of PIH's risk-based monitoring activity.</p>
20.	p. 13	<p>The text and footnote 5 are confusing in their attempt to reference the FY 2001 VA-HUD Conference Report.</p> <p>The text states, "Public Law 106-377 contained reference to language in the conferee's report ..." (in fact, there is no such reference in the public law; the reference only appears in the conference report itself).  A better way to say this might be, "The Conference Report accompanying the FY 2001 VA-HUD Appropriations Act contained language that ..."</p> <p>Also, the footnote somewhat confusingly states "PL 106-377 is the fiscal year 2001 Appropriation Act signed by the President ... and is described in the Committee on Appropriations' Report 106-988."</p> <p>We recommend that the footnote be revised to read: "The Conference Report (H. Rpt. 106-988) accompanied and described the FY 2001 VA-HUD Appropriations Act, which was signed by the President on October 27, 2000 and became Public Law 106-377."</p>
21.	Page 14, para. #1	<p>The following sentence should be deleted or revised: "On October 1, 2000, REAC reportedly began issuing the official PHAS scores." In fact, REAC <b>did not</b> begin issuing official PHAS scores on October 1, 2000, because, as discussed in the previous paragraph of the draft report, the Conference Report on HUD's FY 2001 Appropriation Act directed HUD not to take adverse action on PHAs based on PHAS scores until certain conditions were met. Pending clearance of the Congressional concerns, the PHAS scores are not yet considered official, although PHAS information is being used for risk-based targeting of monitoring and assistance, and negotiation of corrective actions with PHAs.</p>
22.	Page 14, para. #2	<p>The incorrect implication that TARC staff generally did not use the results of PHAS in their monitoring programs needs to be corrected, and the following statement clarified: "In fact, PIH did not develop a protocol until April 2000 for the transfer of troubled HA's identified under PHAS from the field offices to the TARC's once REAC releases the official PHAS scores." In actual fact, the TARC's have used the PHAS Advisory Scores in their recovery efforts with PHA's. The TARC's and HUB's have had a protocol in place for dealing with troubled PHAs designated through the PHMAP, since January</p>

		1999. While PHAS scores remained Advisory, both OTAR and Field Operations began the revision of these existing protocols to more clearly address the transition which resulted in the April 2000 protocols.
23.	Page 15, 1 <sup>st</sup> paragraph	The next to last sentence should be revised to read: “The results of the targeted quality control reviews of IAs completed in FY 2000 showed that 19 percent of the IAs did not perform adequate testing in accordance with the OMB Circular A-133 Compliance Supplement, as it relates to HUD programs.” Furthermore, the OIG might want to note that the results of FASS-QA are based on targeted reviews driven by pre-determined risk factors and are not statistically valid. As such, they can not be extrapolated to the population. Also, even though FOs did not appear to fully utilize the IA reports for monitoring purposes, the findings from the audits result in score deductions under FASS. The FASS scores translate into PHAS scores whereby PHAs are determined to be high, standard or troubled performers with appropriate actions taken by FOs based on the risk designation.
24.	Page 15, Second bullet	The last sentence “on or after June 30, 2000” should read “before June 30, 2000”.
25.	Page 15, Fourth bullet	The last sentence “They were originally established to serve more than 500 troubled HA’s” should read “Based on current staffing levels, each TARC will be able to manage up to 150 troubled PHA’s.”
26.	Page 16, 1 <sup>st</sup> full paragraph, 3 <sup>rd</sup> sentence	Please revise this sentence to delete the words “receiving and,” in recognition of the fact that the results of completed physical inspections are already made available to field office staff for appropriate action.
27.	Page 18	The comments under the heading “Monitoring goals have improved...” should be removed because extensive guidance and training related to all monitoring measured by BOP goals has been provided to the field, including use of both the physical and financial monitoring tools provided by REAC. If the comments remain, then specific evidence should be provided of guidance related to BOP goals that has not been issued, and the resulting weakness that results from the lack of that guidance, so that appropriate corrective action can be taken.
28.	Page 18	The comments under the heading “Transition to new monitoring tools...” should be removed or the statements clarified. The report states “the use of these tools was generally effective except for completion of some follow up efforts, particularly on the riskier portions of the portfolio,” and later “the REAC produced scores were generally used by Office of Housing staff with the exception that the most troubled portion of the portfolio, where the follow up process is more extensive, resulted in a low level of completed follow up actions.” OIG has presented no evidence that this is true. To the contrary, BOP goals measuring the follow up on these tools show that over 95% follow up was achieved throughout the Multifamily portfolio. In making these comments, OIG may be relying on inaccurate statements contained in a draft NFR (#28) that was part of the FHA Audit. Since these are the only negative comments in this part of the report, specific evidence should be provided, or the comments should be removed.
29.	Page 19	The comments under the heading “While management/occupancy reviews have increased,...” should be removed because the statements contained in this portion of the report are not accurate. The report states that HUD policy requires annual management/occupancy reviews of troubled projects. This is a misstatement. Guidance on management/occupancy reviews was provided to OIG that demonstrates that HUD policy does not require annual management/occupancy reviews of all troubled projects. In fact, the next portion of the report states “use of management/occupancy reviews was deliberately reduced in light of activities of the REAC and DEC,” contradicting the claim that these reviews are required on all troubled properties. Furthermore, OIG gives no evidence that HUD’s actual policy of discretionary management/occupancy reviews produces any weakness in project monitoring. OIG should provide such evidence, or delete this portion of the report. If the OIG retains this portion of the report, then they

		should provide a clear statement of what they consider a sufficient level of management/occupancy reviews to be, and what that “sufficient” level should be based upon. Furthermore, if they are retained, these comments should be transferred to the section of the report titled “Verification of Subsidy Payments” since IG claims the result is a lack of assurance that subsidies are determined correctly.
30.	Page 19	The comments under the heading “Communication between the DEC and Office of Housing...” should be modified to recognize the reasons why the information in the DEC records did not always agree with information available to the Office of Housing in REMS. The draft report implies that this was simply an oversight, whereas in fact certain information was not available in REMS because of confidentiality concerns related to certain sensitive information.
31.	Page 19	<p>The comments under the heading “Deployment of monitoring tools has progressed...” should be modified significantly. First, the report states that the number of management/occupancy reviews was insufficient, yet provides no evidence of this assertion. This issue is discussed above. Second, it states that the performance based Section 8 CAs were not functional. In fact, as of October 2000, Section 8 PBCA contracts had been awarded for 38 states, and work had already been transferred to many of these CAs. Furthermore, no evidence is provided that the progress of the CA initiative “continues to be a problem for the field offices.” Third, the statement that “data entry and verification problems continued with REMS” is not supported by any evidence except the issue discussed above with DEC. This is not sufficient to support the IG’s assertion because data was intentionally not included in REMS as discussed above.</p> <p>We appreciate the recognition the draft report gives to the substantial progress made this year in monitoring the Multifamily portfolio. In fact, we believe that the progress was substantial enough that there is no justification for continuing to include this issue in the report, and request OIG’s reconsideration.</p>
32.	Page 20, last paragraph, last sentence	With respect to OIG’s stated recommendation, OIG should recognize that REAC and MF Housing have already begun the business requirements phase for an integrated assessment subsystem for MF Housing, that will include physical, financial and other possible risk indicators. We believe this management initiative negates the need for any OIG recommendation in this area.
33.	Page 21	This reportable condition should be removed based on the comments below. However, if it is not removed, it should be transferred to the section of the report titled “Verification of Subsidy Payments” since it relates to ensuring the subsidies paid are correct.
34.	Page 22	<p>The comments under the heading “Risks associated with the subsidy payment process continue” should be modified to accurately reflect the progress made on implementing the Section 8 CA initiative by the end of the fiscal year. It is not accurate to state that “the CAs started their actual oversight duties and processing of Section 8 benefit delivery on October 1, 2000.” Upon the initial assignment of contracts in June of 2000, CAs began “their actual oversight duties.” From June through September of 2000, CAs performed management and occupancy reviews; insured that owners updated systems with accurate tenant data; processed owner’s rental increase requests; and renewed expiring HAP contracts, as well as performing other oversight responsibilities. Housing Assistance Payments from the CAs to owners began in October to allow for time to establish systems connectivity; establishment of account transfers; and other steps needed to ensure that payments were accurate and made on time.</p> <p>The draft report should include descriptions of the many other procedures being followed to ensure that Section 8 subsidy payments are made for the appropriate dollar amount. These include resident reporting, owner certifications and third party verifications, voucher reviews, onsite occupancy reviews, IPA audits and verification of tenant income.</p> <p>In addition to programmatic safeguards such as resident reporting, owner certifications - and the ongoing Tenant Income Verification effort coordinated by the Real Estate</p>

		<p>Assessment Center (REAC) - the Department performs an automated review of monthly vouchers to compare the amount requested to an average of the amount paid on each HAP contract over the previous six months. If the amount requested exceeds the 6 month average by more than 120%, the Department suspends the payment to the owner pending manual review to ensure the owners' requests are valid prior to authorizing payment.</p> <p>It should also be noted that each year Housing staff go to project sites on which there are project-based Section 8 HAP contracts and, while on site, Housing representatives perform reviews of the physical files and records to certify that owners are correctly calculating the amount of subsidy that HUD must pay. Last year, HUD performed these reviews on nearly 10% of its subsidized contract portfolio. This year the Department will conduct reviews on at least 25% of the subsidized contract portfolio.</p>
35.	Page 22, para. 2	The next to the last sentence should read: "Furthermore, the underlying information technology systems are being evaluated and temporarily the processing is handled by HUDCAPS, PAS, LOCCS and TRACS."
36.	Page 22	The comments under the heading "The FMC experienced some difficulties..." should be removed, since the IG presents no evidence that the issue discussed here presented any risk to HUD of incorrect payments. In fact, it resulted in a <i>higher</i> number of prepayment reviews, which led to a <i>higher</i> level of assurance that payments were correct.
37.	Page 22, para. 3	If this paragraph is retained, add a last sentence after: "...makes mistakes. The FMC has forestalled repeated rejections by calculating a new threshold and providing it to the Accounting Center."
38.	Page 23	<p>The comments under the heading "No sanctions have been taken when noncompliance is identified" should be removed since they are not accurate. The draft report states that no sanctions have been taken for an owner's non-compliance with tenant income certification requirements and notes, incorrectly, that Housing has not established a policy for suspending payments for contracts where an owner has not complied with these requirements. We disagree with the Draft's contention because there is assurance that Section 8 subsidy payments are based on accurate tenant information and procedures are followed to ensure owner compliance with program requirements.</p> <p>In terms of owner compliance, there are controls to affirm that the data owners submit on monthly vouchers for subsidy payment agrees with the data of the owner certifications. Currently, an upfront review is done to compare the monthly vouchers to electronic certifications on over 45% of its Section 8 assisted portfolio. This review is done monthly before payments for vouchered amounts are authorized. If a material difference in the two exists, payments are withheld until the owner makes a correction. Additionally for those contracts that are not subject to this upfront review, the Department is currently in the process of implementing new controls to monitor owners' updating of these electronic certifications. The Department will compare the data owners submit monthly on vouchers for subsidy payments to the data submitted on the above mentioned electronic certifications. If there is a 15% variance in the two sets of data, HUD will notify owners of this variance. As variances are often caused by owner failure to update certifications, HUD will allow the owner an opportunity to update their data. Ultimately, HUD will suspend payments if the owner fails to correct the variance.</p>
39.	Page 23, "No sanctions para."	If this paragraph is not deleted, the statement "...fiscal year 2000, there are no written policies and procedures in place for this function" is untrue. The FMC does have brief written procedures for the staff who perform those reviews. The statement "As a result, staff were....." should be eliminated entirely because the reason for the lack of suspensions is stated in the following statement. The last sentence in the paragraph (FMC management should provide written policies and procedures ..... ) should be eliminated because procedures are in place, although Housing has not established a policy for such suspensions.
40.	Page 24, para. 1	The sentence should read: "In fiscal year 2000, most Section 8 HAP's were paid without any HUD review if they passed system edits. Only those that fail were subject to pre-

		payment review.”
41.	Page 25	This section on Verification of Subsidy Payments should consider our above related comment numbers 16, 29, 31, 34 and 38, since they demonstrate many of the things we do to ensure payments are correct, that the draft report doesn't mention. Given the overlapping manner in which the draft report presents the 2 material weaknesses and one reportable condition dealing with interrelated controls over rental subsidy payments, we believe these issues should all be reported and tracked under a single material weakness. For FMFIA reporting purposes, management plans to report a single material weakness on Controls Over Rental Subsidy Payments, and is in process of developing a comprehensive corrective action plan to address that material weakness area.
42.	Page 25, para. 3	The last sentence needs to be changed to read: “A recent PIH survey shows the majority of State wage agencies provide data to HA's and some have electronic systems for this up-front match”.
43.	Page 25, last paragraph	Please add clarification that the large-scale nationwide computer matching effort does not use a sampling methodology, but rather is a 100% matching of all subsidized households in HUD's databases. Also, please update the draft report to reflect that the reports detailing the results of the small-scale computer income matching projects have been delivered to the OIG.
44.	Page 26, first sentence	Please delete the word “on;y” as it improperly diminishes the significant undertaking represented by an annual large-scale computer matching effort involving multiple data bases and records on millions of participants.
45.	Page 26, 2 <sup>nd</sup> and 3 <sup>rd</sup> paragraphs	Add the phrase “and other sources” after references to the source of computer matching data. This occurs once in the 2 <sup>nd</sup> paragraph and three times on the 3 <sup>rd</sup> paragraph. The IRS is very sensitive to this issue and should not be singled out as the main source of computer matching data. The references should read:  Social Security Administration (SSA) databases, Internal Revenue Service (IRS) databases and other sources of data.  Federal income tax data and other sources of information.  Federal tax data and other data sources.  Federal tax data from the IRS and SSA, as well as data from other sources, for calendar year 1998.....
46.	Page 26, last para.	MTCS data will be used in “seven of the fourteen indicators” should read “five of fourteen indicators”.
47.	Page 27, 2 <sup>nd</sup> paragraph, last sentence	Please revise this to read that: “While REAC originally anticipated issuing a final report on the results of the first cycle of the annual large-scale match in April 2001, monthly reporting will likely continue on the resolution of discrepancies reported by POAs until efforts on each cycle are substantially completed.”
48.	Page 28, last two paragraphs	It should be noted that the effectiveness and efficiency of the results of HUD's initial large-scale matching effort are being evaluated, but that the pursuit of other cost-effective matching efforts would likely require statutory changes to give HUD data access and use authorities it currently does not have. As with any large-scale change initiative, HUD anticipates program enhancements. These enhancements, or refinements, should not be viewed as errors in HUD's large-scale methodology, but as improvements to increase the success of the program.
49.	Pages 37-41	While OCIO concurs with the recommendations and findings contained within the subject draft OIG report, we recommend that the OIG take further steps to provide additional detailed information when citing systems inadequacies, shortcomings or deficiencies. In those cases where systems inadequacies, shortcomings or deficiencies can be directly attributed to IT development practices, the OCIO will take appropriate action to address these deficiencies. However, in those cases where systems are found to be inadequate because of business rules or practices, the OIG reports need to indicate this. This is a

		significant change and will assist the Department in better identifying the cause of the system deficiency and, ultimately, in addressing and resolving system problems both from an IT and a business standpoint.
50.	Pages 38-40, "Reliability of HUDCAPS"	In this section, the auditors reference the FY 2000 audit of HUDCAPS and state that "we did find significant internal control deficiencies that must be addressed." The section goes on to list several deficiencies without any reference to the current state of those deficiencies. The result is a misleading presentation of the current state of HUDCAPS, and we request that the final report reference specific comments provided by OCFO to OIG on December 28, 2000, in response to the draft audit report on HUDCAPS. As examples, Page 39 references that HUDCAPS is not under full configuration management when it has been since December 2000. Page 39 references lack of reconciliation between data from the Decision Support System (DSS) and the HUDCAPS production tables even though OIG staff communicated to OCFO that this weakness was "fixed" in an audit briefing on January 30, 2001. Page 39 references weaknesses in control of the HUDCAPS UTTCOR utility, without acknowledging that execution of UTTCOR was placed under production control contractors in November 2000. Page 40 references that "HUDCAPS has not been updated to reflect legislated changes", when in fact, appropriations involved with the legislated transfer were transferred in September 2000.
51.	Page 40, Paragraph 1	During the FY 1999 audit, there were almost 12,000 PAS documents in the Document Suspense File (SUSF). As of May 1, 2000, the OCFO had reduced the number of PAS documents in SUSF to 99. Since that time, the number has generally been maintained below 100, and has been in the 20-40 document range for the past month.
52.	Page 40, Paragraphs 5 and 6	As of September 2000, HUD had reviewed security profiles which had VEND access and deleted approximately 500 users with "inactive" accounts. HUD removed update access to VEND from 4 access profiles (17 users) due to lack of need.  The statistic that "...194 (52%) did not use their access at all during fiscal year 2000" is misleading. The MTI log only tracks updates to VEND, therefore, the statistic represents those who did not update VEND. The MTI log cannot track whether the users accessed VEND for query purposes during the fiscal year. This should be clarified.
53.	Pages 46-48, "HUD Did Not Substantially Comply With the Federal Financial Management Improvement Act"	As previously discussed in comments number 3 and 4 above, it is OCFO management's position that HUD's core SGL system is substantially compliant FFMIA and JFMIP requirements, in accordance with the guidance provided on January 4, 2001, by the Office of Management and Budget's (OMB) "Revised Implementation Guidance for the Federal Financial Management Improvement Act" to the Heads of Executive Departments and Establishments, Chief Financial Officers, and Inspectors General. OIG is requested to reconsider its position on this issue.
54.	Page 47, 2 <sup>nd</sup> paragraph from bottom, last sentence	It is inaccurate to the state that the reviews did not address whether or not the systems were in compliance with FFMIA. The contractor maintains that if the systems are substantially compliant with A-127, then they are in fact compliant with FFMIA. The OIG's statement actually contradicts the last statement of the following paragraph which says "Based on the scope of the reviews and compliance factors assessed, each is listed as conforming with FFMIA."
55.	Page 50, recommendation 1.a	We request that this recommendation be deleted, given that the OMB guidance on the referenced possible requirement was not issued in final, and that HUD's annual subsidy overpayment estimation process and periodic PD&R quality control studies already meet the intent of this pending requirement.
56.	Page 53, 5.c.	Since PAS and LOCCS are not the only Departmental systems utilizing QLP, suggest that this recommendation regarding QLP policy/procedure be a joint OCFO and OCIO effort.
57.	Page 53, 5.d.	Since this recommendation applies to all applications on the UNISYS computer, suggest

		that this recommendation fall under OCIO .
58.	Page 53, 5.e.	<p>HUD disagrees with the recommendation for the following reasons: 1) The MTI log does not track read access, only update; so it is not possible to determine which users accessed VEND for query purposes. 2) The recommendation requires removal of access of any user who has not accessed (updated) VEND in six months. As a result, many users will be deleted after six months because most do not update VEND. In fact, most do not have update access granted. 3) Users doing their job may query VEND on a daily basis to determine if update is needed. Seven months into the year they may need to add a new vendor. If this recommendation were implemented, users suddenly will have to apply for re-establishment of access to do their job, resulting in possible payment delays.</p> <p>HUD management does agree to evaluate the impact of the small purchases system interface with HUDCAPS to determine if the interface can reduce the number of users who require VEND update access. Additionally, OCFO has requested estimates from the software vendor for a modification to segregate the view of employee record in VEND from commercial/ government vendors, and restrict access to employee records in VEND to the staff in the CFO Accounting Center in Fort Worth.</p>
59.	Page 55	Under the section "Unimplemented Recommendations from Prior Years' Reports," the Draft still carries Recommendations 4.a., 4.c., and 4.d. from OIG Report Number 96-FO-177-0003. These recommendations, all of which have had final actions taken, refer back to a time - Pre-2020 Management Reform - when the recommendations had some practicality or feasibility but the recommendations were rendered invalid with the implementation of Housing's 2020 management reforms. Since actions have long since been taken to address the original intent of the recommendations, they should no longer be reported. The recommendations need to be formally closed in the DAAMS.
60.	Page 55	OIG Report Number 97-FO-177-0003 (Fiscal Year 1996 Financial Statements) Recommendation 2a - Final Action target date extended from 12/31/00 to 05/26/01 in DAAMS on 02/08/01.
61.	Page 55	Delete recommendations 2a. and 2b. from the FY 1998 financial statement audit, as they have been implemented. REAC is awaiting access to DAAMS to formally close these items.
62.	Page 56, 1.c.	Corrective action has been completed for this recommendation. HUD has developed automated procedures to ensure uniformity and consistency in the reconciliation of general ledger cash accounts to Treasury. These procedures will be further enhanced once US Treasury is able to go on-line with HUD to produce a fully automated SF-224.
63.	Page 56, 1.d.	Corrective action has been completed for this recommendation. The OCFO has completed the FY 1999 and FY 2000 reconciliations and is in the process of reconciling the first quarter of FY 2001. In addition, the OCFO has drafted detailed procedures and provided training to the OCFO staff on the performance of cash reconciliations and how to address systematic problems.
64.	Pages 56 and 58	<p>The responsibility for the following open recommendations from prior year audits has been transferred from the Office of Administration to the Office of the CIO, and the report should note the change in parenthesis next to these recommendations:</p> <ul style="list-style-type: none"> <li>• The 1998 financial audit recommendation numbers 7d. and 7j.</li> <li>• The 1999 financial audit recommendation numbers 4c. and 5b.</li> </ul>
65.	Page 57, 1.e.	Detailed cash reconciliation procedures have been drafted, and on February 8, 2001, the contractor provided training to the HUD accounting staff to assume full responsibility for cash reconciliations. The draft procedures will be finalized by February 16, 2001.
66.	Page 57, 1.f.	The OCFO issued draft guidance on December 30, 2000 regarding processing manual adjustments that must be made during the financial reporting process, including adjustments to the Hyperion reporting program. It presents a standard uniform procedure for ensuring that the financial data in HUD's core accounting system remains synchronized with HUD's reporting systems. This guidance is expected to be issued in final prior to the end of the second quarter of 2001.



67.	Page 57, 1.g.	Corrective actions have been completed for this recommendation. In April 2000, the CFO suspended conversions to HUDCAPS (including Section 8). This recommendation should be closed. No additional conversion of funds to HUDCAPS are planned.
68.	Page 57, 1.h.	Corrective action has been completed for this recommendation. In May 2000, the CFO redefined the objective and project scope of the FSI project to consist of providing a JFMIP-compliant core financial management system. In this regard, the FSI project focused on establishing HUDCAPS as the core SGL for the Department. Accordingly, the DGMS and EDW project components, previously included as part of the overall FSI project, have been transferred to the OCIO and Office of Administration for development outside the FSI project, with CFO participation to assure a sufficient interface with HUDCAPS on the financial aspects of those new systems.
69.	Page 58, Prior Year Rec # 4f	In June 2000 the OIG agreed to close this recommendation providing that a test plan with specific milestones for disaster recovery was developed. This task was accomplished and the recommendation was effectively closed on October 23, 2000. The recommendation has now been closed in DAAMS, and should be removed from the OIG's final audit report.
70.	Page 58, Prior Year Rec # 4g	Business Resumption Plans were developed as recommended to effectively close this recommendation on October 23, 2000. The recommendation has now been closed in DAAMS, and should be removed from the OIG's final audit report.
71.	Page 58, 7.a.	Corrective action has been completed for this recommendation. Prior to September 2000, HUD validated the list of individuals who would require access to UTTCOR and reduced the access to 3 individuals. As of November 2000, a production control contractor executes all UTTCOR tasks. This recommendation should be closed. UTTCORE utility has been restricted to authorized personnel.
72.	Page 58, 7.b.	Corrective action has been completed for this recommendation. In March 2000, HUD implemented a central repository on the Hitachi computer to store parameters and preliminary and final results of UTTCOR. HUD has also revised the HUDCAPS Security Plan to document the policies and procedures on the use of the UTTCOR utility. This recommendation was closed in DAMMS in October 2000. HUD is continuing to strengthen the maintenance of the MS <i>Access</i> database that manually records the audit trail of UTTCOR tasks performed. An internal control review is being performed to assure our process is working as intended.
73.	Page 59	OIG Report Number 00-FO-177-0003 (Fiscal Year 1999 Financial Statements) Recommendation 10a - Final Action completed on 01/26/01 and recorded in DAAMS on 02/05/01.
74.	Appendix C, pages 1-3	Two of the systems (F47 & F75) were reported as not being in compliance with OMB No. A-127. The basis for this is that these systems lacked clear system documentation. Both of these systems are old legacy systems built in 1985 and 1990, respectively. Additionally, both of these systems have been functioning for years without any major audit findings. These systems are also scheduled to move into the new general ledger system which is currently under implementation.

## Attachment No. 2

**COMPARISON OF OIG & MANAGEMENT POSITIONS ON  
MATERIAL WEAKNESSES & REPORTABLE CONDITIONS  
February 14, 2001**

<b>1999 OIG/FMFIA Status</b>	<b>2000 OIG Position Per Draft Consolidated &amp; FHA F/S Audits*</b>	<b>2000 CFO Suggested FMFIA Position *</b>
MW1 - Financial Management Systems	Retained - MW1	Retain - MW1
MW2 - Tenant Income Verification	Retained - MW2	Expanded to Rental Subsidies - MW2
MW3 - MF Monitoring	Refocused on Subsidy Calculations - MW3	Close
MW4 - FHA Federal Basis Accounting	Eliminated	Close
MW5 - FHA Information Systems	Retained - MW4	Retain - MW3
RC1 - Performance Measures	Retained - RC1	Retain - MC1
RC2 - Project-Based Subsidy Payments	Retained - RC2	Combine as part of MW2
RC3 - PHA Monitoring	Combined as part of MW3	Retain - MC2
RC4 - HUD's Computing Environment	Retained - RC3	Retain - MC3
RC5 - Personnel Security Over Systems	Retained - RC4	Retain - MC4
RC6 - HUDCAPS Access/Data Integrity	Retained - RC5	Retain - MC5
RC7 - Obligation Balances	Retained - RC6	Retain - MC6
RC8 - FHA Loss Prevention	Retained - RC7	Retain - MC7
RC9 - SF Mortgage Notes Servicing	Eliminated	Close
RC10 - SF Property Inventory	Retained - RC8	Retain - MC8
RC11 - FHA Reserve Estimates	Eliminated	Close
RC12 - FHA Systems Controls	Retained - RC9	Retain - MC9
		Resource Management - MC10
		Management Controls - MC11
<b>5 - Material Weaknesses (MW)</b>	<b>Material Weaknesses (MW) - 4</b>	<b>Material Weaknesses - 3</b>
<b>12 - Reportable Conditions/ Management Concerns (RC/MC)</b>	<b>Reportable Conditions (RC) - 9</b>	<b>Management Concerns (MC) - 11</b>
<b>17 - TOTAL Challenge Areas</b>	<b>TOTAL Challenge Areas - 13</b>	<b>TOTAL Challenge Areas - 14</b>

\* - The OIG and HUD management lists of FY2000 issues differ in that the OIG's draft internal control reports on the HUD and FHA financial statement audits present a refocus of the prior MF Monitoring MW and PIH Monitoring RC in a combined restated MW on Rental Subsidy Calculations, while continuing to report overlapping MW/RC issues on Tenant Income Verification and Project-Based Subsidy Payments. In contrast, OCFO has recommended that management: (i) close the Multifamily Housing Monitoring MW, based on progress acknowledged by both the OIG and KPMG financial statement audit teams, (ii) combine the 2 overlapping OIG MW/RC issues associated with improving controls over Rental Subsidies into one MW, and (iii) continued to report and track further corrective actions on Resource Management, Management Control Program and PIH Monitoring activities as MCs. The OIG restates their 1999 decision to no longer report HUD's resource management issue as a weakness having a material impact on the financial statements, but continues to caution that resource management deficiencies limit HUD's ability to provide adequate controls to address material weaknesses and reportable conditions in other areas. OIG references the need to complete or fully implement ongoing corrective actions to strengthen resource management, such as the Resource Estimation and Allocation Program (REAP) Project. While OIG no longer takes issue with HUD's Management Control Program, OCFO will continue to report the area as a MC, to strengthen management support for the evaluation of risks in the redesigned control structure under recent HUD reorganizations and reforms, as well as for performance of Front End Risk Assessments (FERAs). Regarding PIH Monitoring, management will continue to report and track this as a MC, pending the resolution of issues regarding actions on violations of housing quality standards and the full implementation of the PHAS rule.