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| Audit Report Number 2005-DP-0004 |
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TO: Carin M. Barth, Chief Financial Officer, Office of the Chief Financial Officer, F

/s/

FROM: Curtis W. Hagan, Director, Information Systems Audit Division, Office of
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SUBJECT: HUD's Compliance with JFMIP Core Financial System Management and
General Ledger Management Requirements

HIGHLIGHTS

What We Audited and Why

We audited certain components of the Department of Housing and Urban Development's financial system to determine whether it is capable of performing the mandatory Core Financial System and General Ledger Management functional requirements provided in the Joint Financial Management Improvement Program, "Core Financial System Requirements" JFMIP-SR-02-01, dated November 2001.

Of the six Joint Financial Management Improvement Program Core Financial System functions, this audit examined HUD's financial system capability to perform the Core Financial System Management and General Ledger Management functions. The Core Financial System function consists of the Accounting Classification Management and Transaction Control processes. The General Ledger function consists of the following processes: General Ledger Account Definition, Accruals, Closing and Consolidation, and General Ledger Analysis and Reconciliation.

This audit was conducted in support of OIG's assessment of HUD's compliance with the Federal Financial Management Improvement Act of 1996, as to whether HUD had implemented a Department-wide integrated financial management system. Determining compliance with "Core Financial System Requirements" JFMIP-SR-02-01 is an important portion of that assessment, but the final assessment depends on many other factors outside the scope of this review.

What We Found

We found that the financial system used by HUD's Office of the Chief Financial Officer is capable of performing the mandatory Core Financial System and General Ledger Management functional requirements published in Joint Financial Management Improvement Program publication, "Core Financial System Requirements" JFMIP-SR-02-01, dated November 2001.

The results of this audit do not change the OIG's previous conclusion with respect to the existence of a material weakness with HUD's financial management system as reported in Audit Report Number FO-05-0003, "Additional Details to Supplement Our Report on the U.S. Department of Housing and Urban Development's (HUD) Fiscal Year 2004 Financial Statements."

What We Recommend

There are no recommendations in this report.

Auditee's Response

Since there are no recommendations, this report is issued in final and no response is necessary from the Office of the Chief Financial Officer.

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BACKGROUND AND OBJECTIVES

The Joint Financial Management Improvement Program is a joint undertaking of the U.S. Department of the Treasury, the Government Accountability Office, the Office of Management and Budget's Office of Federal Financial Management, and the Office of Personnel Management. The heads of these Agencies, also referred to as JFMIP Principles, work in cooperation to improve financial management practices in the Federal Government. In December 2004, the JFMIP Principles signed an agreement to realign responsibilities for financial management policy and oversight. The agreement reassigns responsibility for certifying financial system software from the Joint Financial Management Improvement Program to the Chief Financial Officers Council. The Office of Federal Financial Management will now issue requirements for financial systems, i.e. updates to the core financial systems requirements.

HUD is required to have financial management systems that comply with the mandatory requirements outlined in the Joint Financial Management Improvement Program publication, "Core Financial System Requirements" JFMIP-SR-02-01, dated November 2001. For HUD's financial system to comply with the Core Financial System Management function requirements, its financial system must have the capability of capturing, classifying, processing, storing and retrieving the financial data for use in daily operations. To be compliant with the General Ledger Management functional requirements, HUD's financial system must have the capability of maintaining account balances using a government-wide standard of accounting classification elements and the capability of posting specified transactions to record financial events.

Our objective was to determine whether the HUD Office of the Chief Financial Officer's core financial systems are capable of performing the mandatory Core Financial Management and General Ledger Management functional requirements found in the Joint Financial Management Improvement Program publication, "Core Financial System Requirements" JFMIP-SR-02-01, dated November 2001. Our review focused on whether the HUD's financial system has the capability to perform the mandatory functional requirement and did not assess implementation. We did not determine whether the optional "value-added" requirements were met.

RESULTS OF AUDIT

Finding 1: HUD's financial systems are capable of performing Core Financial System Management and General Ledger Management function requirements

No Instances of Non-compliance Found

Our audit disclosed no instances in which the HUD Office of the Chief Financial Officer financial system was unable to perform mandatory Core Financial Management and General Ledger Management functional requirements provided in Joint Financial Management Improvement Program (JFMIP) publication "Core Financial System Requirements" JFMIP-SR-02-01, dated November 2001.

This audit did not evaluate the implementation, effectiveness, or overall efficiency of HUD's financial system. Also, we did not review the financial system's compliance with all Federal statutory and regulatory requirements. Therefore, the result of this audit does not change the OIG's conclusion with respect to the existence of a material weakness with HUD's financial management system as reported in Audit Report Number FO-05-0003, "Additional Details to Supplement Our Report on the U.S. Department of Housing and Urban Development's (HUD) Fiscal Year 2004 Financial Statements."

Conclusion

HUD's financial system is capable of performing mandatory JFMIP Core Financial Management and General Ledger Management functional requirements.

Recommendations

There are no recommendations in this report.

SCOPE AND METHODOLOGY

This audit examined the Office of the Chief Financial Officer's compliance with the Core Financial System Management and General Ledger Management functional requirements provided in Joint Financial Management Improvement Program publication, "Core Financial System Requirements" JFMIP-SR-02-01, dated November 2001. The Office of the Chief Financial Officer's financial applications with Core Financial Management and General Ledger Management functions are the HUD Central Accounting and Program System (HUDCAPS) and the Program Accounting System (PAS).

The scope of our audit focused on whether the Office of the Chief Financial Officer's financial system has the capability to perform JFMIP Core Financial Management and General Ledger Management functional requirements. The Core Financial System function consists of the Accounting Classification Management and Transaction Control processes. The General Ledger function consists of the following processes: General Ledger Account Definition, Accruals, Closing and Consolidation, and General Ledger Analysis and Reconciliation. We did not assess implementation, efficiency, or effectiveness.

Also, the audit's scope was not sufficient to reach a conclusion as to whether HUD has corrected the material weakness with its Department-wide financial management system, as reported in Audit Report Number FO-05-0003, "Additional Details to Supplement Our Report on the U.S. Department of Housing and Urban Development's (HUD) Fiscal Year 2004 Financial Statements."

We conducted interviews, reviewed documentation, and/or observed system functionality to determine if the Core Financial Management and General Ledger Management functional requirements were capable of being performed by the HUD Office of Chief Financial Officer's core financial system.

We performed our review in accordance with generally accepted government auditing standards.

INTERNAL CONTROLS

Internal Control is an integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved:

- Effectiveness and efficiency of operations,
- Reliability of financial reporting, and
- Compliance with applicable laws and regulations.

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

This review was an assessment of compliance with high-level functional requirements. We did not test or evaluate internal controls.

APPENDIXES

Appendix A

AUDITEE COMMENTS AND OIG'S EVALUATION

Since there are no recommendations, this report is issued in final and no response is necessary from the Office of the Chief Financial Officer.