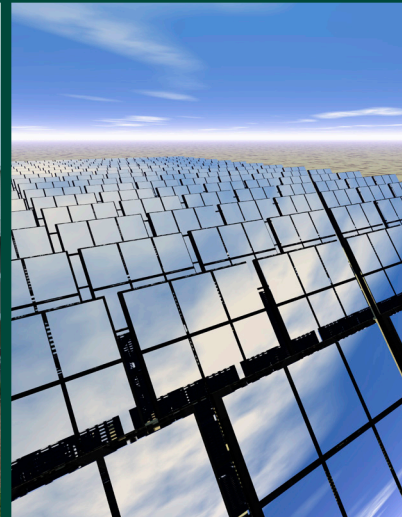




FY 2012

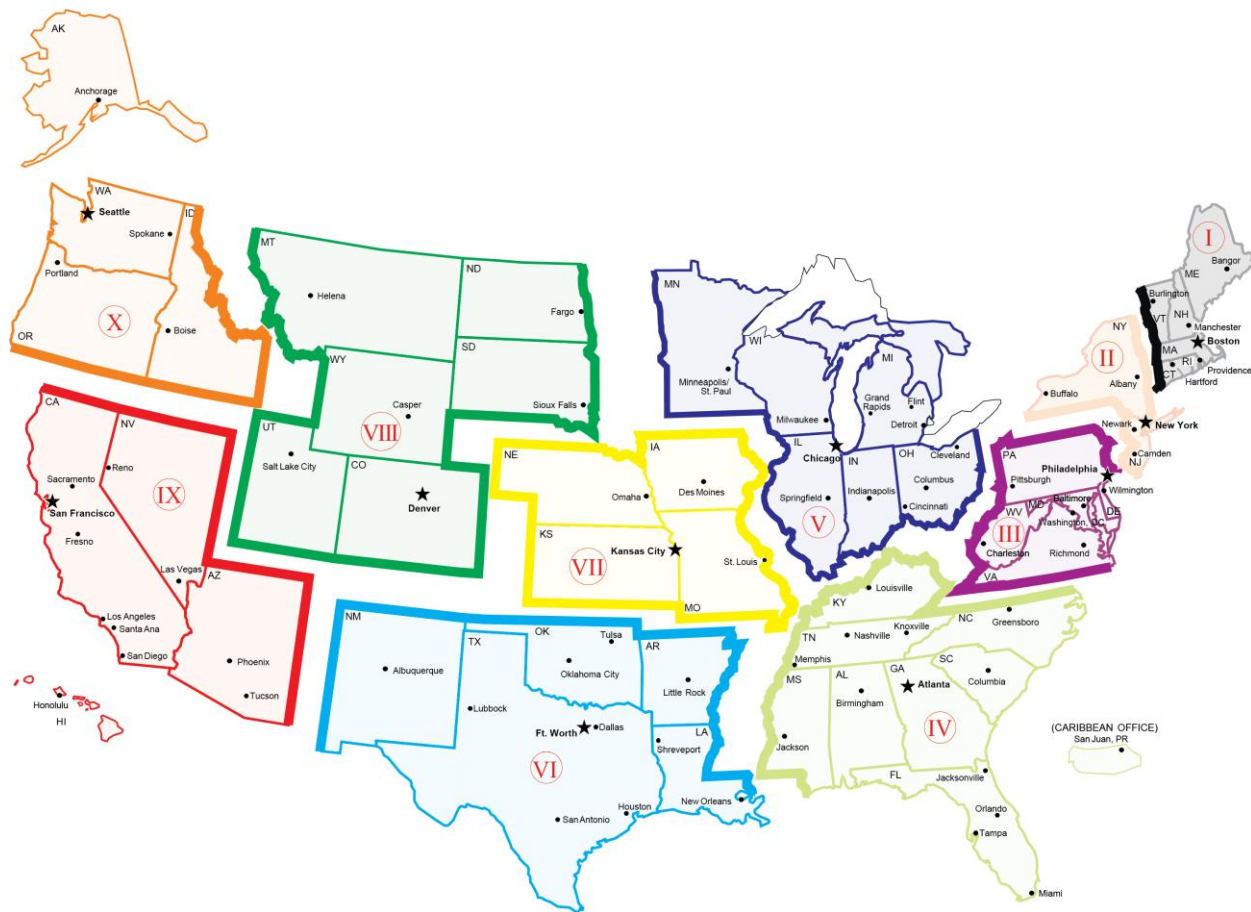
Summary of Performance and Financial Information



The [Department of Housing and Urban Development](#), created in 1965, is the Federal agency responsible for national policy and programs that address America's housing needs, improve and develop the Nation's communities, and enforce fair housing laws. HUD's business is helping create a decent home and suitable living environment for all Americans, and it has given America's communities a strong national voice at the Cabinet level. HUD plays a major role in supporting homeownership by underwriting homeownership for lower- and moderate-income families through its mortgage insurance programs.

Organizational Structure

HUD accomplishes its mission through component organizations and offices that administer place-based programs which are carried out through a network of regional offices and smaller field offices, as well as through grantees, contractors, and other business partners. A map of HUD's regions is shown below and contact information for the field offices is located at: <http://portal.hud.gov/portal/page/portal/HUD/localoffices>.



About This Report

The United States [Department of Housing and Urban Development](#) (HUD) Summary of Performance and Financial Information Report (Summary Report) for Fiscal Year (FY) 2012 provides a summary of the most relevant performance and financial information to help the President, Congress, and the public assess our stewardship over the resources entrusted to us. Our [FY 2012 Agency Financial Report](#) (AFR) and [Annual Performance Report](#) (APR) contain more detailed information and analyses.

HUD'S Mission

***CREATE STRONG, SUSTAINABLE, INCLUSIVE COMMUNITIES AND
QUALITY AFFORDABLE HOMES FOR ALL.***

HUD's FY 2010-2015 Strategic Goals

In May 2010, HUD updated its [Strategic Plan](#) to address the economic, financial, and community development issues the nation was enduring. As a result, the Department created five overarching Strategic Goals that are guiding the transformation of HUD into a 21st century organization capable of implementing place-based policies; overseeing a balanced, comprehensive national housing policy that supports sustainable homeownership and affordable rental homes alike; and building the strong, inclusive communities necessary to make the home the foundation of stability and opportunity.



Performance Overview

This section briefly presents HUD's strategic and performance planning framework and summarizes HUD's Agency Priority Goals (those measures critical to the accomplishment of HUD's mission). The foundation for the performance-planning framework is the Government Performance and Results Act Modernization Act (**GPRAMA**) of 2010, which amended the **Government Performance and Results Act (GPRA) of 1993**. The GPRAMA created a more defined performance framework by prescribing a governance structure and by better connecting plans, programs, and performance information, to include Agency Priority Goals (APGs) in their Strategic Plan and Annual Performance Plan (APP).

Agency Priority Goals (APGs)

The APGs represent challenging performance improvements, which serve as management improvement strategies under existing legislative and budgetary authority. Beginning in FY 2012, the GPRAMA required agencies to identify two-year APGs that support improvements in near-term outcomes, customer service, or efficiencies, and advance progress toward longer-term outcome focused goals in an agency's Strategic Plan. Prior to GPRAMA, HUD had selected four outcome measures as priority measures for FY 2010 and 2011 because they represented challenging, near-term, high-impact outcomes that reflected the Department's commitment to "moving the needle" on some of the most fundamental challenges facing America. In FY 2012, HUD continued its implementation of these four measures, but with new two-year targets that build on progress made during the previous two years. In addition, HUD expanded the number of priority goals to include the Department's outcome measure to improve neighborhood stabilization within Strategic Goal 1. HUD has also included, as an efficiency goal from Strategic Goal 5, an APG to award funds more quickly and help improve our partners' ability to work with HUD to achieve our mission.

The APGs below, displayed under the respective Strategic Goal to which they apply, directly support HUD's Strategic Goals and the Strategic Plan's 31 measures of success. Additional information on these APGs can be found at: Performance.gov.

Strategic Goal 1. Strengthen the Nation's Housing Market To Bolster the Economy and Protect Consumers

- **Prevent foreclosures.** By September 30, 2013, assist 700,000 homeowners who are at risk of losing their homes due to foreclosure. (**Measure 1a**)
- **Reduce vacancy rates.** By September 30, 2013, reduce the average residential vacancy rate in 70 percent of the neighborhoods hardest hit by the foreclosure crisis relative to comparable areas. (**Measure 3a**)

Strategic Goal 2. Meet the Need for Quality Affordable Rental Homes

- **Preserve affordable rental housing.** By September 30, 2013, preserve affordable rental housing by continuing to serve 5.4 million total families and serve an additional 61,000 families through HUD's affordable rental housing programs. (**Measure 5a**)

Strategic Goal 3. Utilize Housing as a Platform for Improving Quality of Life

- **Reduce homelessness.** By September 30, 2013, in partnership with the VA, reduce the number of homeless Veterans to 35,000 by serving 35,500 additional homeless Veterans. HUD is also committed to making progress towards reducing family and chronic homelessness and is developing milestones to allow for tracking of these populations. (**Measure 6**)

Strategic Goal 4. Build Inclusive and Sustainable Communities Free From Discrimination

- **Increase the energy efficiency and health of the nation's housing stock.** By September 30, 2013, HUD will enable a total of 159,000 cost effective energy efficient and healthy housing units, as a part of a joint HUD-DOE goal of 520,000. (**Measure 13**)

Strategic Goal 5. Transform the Way HUD Does Business

- **Improve program effectiveness by awarding funds fairly and quickly.** By September 30, 2013, HUD will improve internal processes to ensure that we can obligate 90 percent of Notice Of Funding Availability (NOFA) programs within 180 calendar days from budget passage. (**Measure 27**)

Agency Priority Goals

HUD PERFORMANCE SUMMARY TABLES

Indicator	2010		2011		2012		Met?	Trend
	Target	Actual	Target	Actual	Target	Actual		
Agency Priority Goal: Prevent foreclosures – Measure 1a.								
Homeowners assisted through FHA early delinquency intervention and loss mitigation	362,015	406,747	337,985	495,684	350,000	445,149	▲	
Agency Priority Goal: Reduce vacancy rates – Measure 3a.								
Percent of Neighborhood Investment Clusters (NICs) with improved vacancy rate outcomes over at least one comparable area	NA	NA	NA	NA	70.00%	77.8% ⁽¹⁾	▲	NA
Agency Priority Goal: Preserve affordable rental housing – Measure 5a.								
Additional families served in affordable rental housing	79,191	84,673	127,828	131,955	29,869	113,673	▲	
Agency Priority Goal: Reduce homelessness – Measure 6.								
Total Homeless Veterans Assisted ⁽²⁾	11,049	26,578	12,425	32,652	19,678	29,777 ⁽²⁾	▲	
Agency Priority Goal: Increase the energy efficiency and health of the nation's housing stock – Measure 13.								
Total cost effective, healthy, energy-efficient, and green retrofits or new housing ⁽³⁾	55,985	91,672	103,348	109,772	75,670	83,051	▲	
Agency Priority Goal: Improve program effectiveness by awarding funds fairly and quickly – Measure 27.								
Percent of NOFAs posted to Grants.gov within 180 days of budget passage	No Target	No Data	No Target	56%	90%	46%	▼	

¹ Data for this metric are only available to FY 2012 Q2. Final FY 2012 end-of-year results are pending.

² Three programs contribute to this goal: Continuum of Care (CoC), Homelessness Prevention and Rapid Re-housing Program (HPRP), and HUD-Veterans Affairs Supportive Housing (VASH). The CoC and HPRP measures are only reported annually, thus FY 2012 data is preliminary data at this time. The performance data for CoC and HPRP is not available until after the end of the calendar year because grantees have 90 days following the end of their grant term to report performance for their grants. Also note that, in order to avoid double counting with the HUD-VASH data, the HPRP data excludes Veterans that received HPRP assistance in conjunction with HUD-VASH.

³ Includes the use of a unit equivalent method approved by OMB for certain programs to reflect the ten most cost effective Energy Conservation Measures.

APG - Measure 1a: Prevent Foreclosures. The economic impact of the housing crisis has been significant and protracted. During the fiscal year, the Administration has undertaken substantial and varied efforts to assist struggling homeowners through its foreclosure prevention programs that also spur the broader economy.

Strategy: Assist homeowners facing foreclosure, using prevention, loan modification, and loan refinancing programs.

Loan servicers most often offer early delinquency intervention assistance to homeowners who are less than 90 days in default. The early delinquency interventions have been effective over the years, but as the housing crisis expanded, HUD implemented new and improved loss mitigation programs to better assist homeowners most in danger of losing their homes. These loss mitigation products include: the [FHA Home Affordable Modification Program \(HAMP\)](#); Special Forbearance; Mortgage Modifications; Partial Claims; Pre-foreclosure Sales; and Deeds in Lieu of Foreclosure. The Housing Counseling program also contributes to this goal.



Results:

In FY 2012, HUD exceeded cumulative targets for early delinquency interventions and loss mitigation actions by 16 percent and 55 percent, respectively, for a total of 445,149 homeowners assisted.

Our success on this goal is due to our continued work with lenders to find ways to help borrowers at risk for foreclosure as well as outreach to borrowers to ensure they are aware of their options when facing foreclosure. Although our performance is strong, HUD continues to closely monitor the high number of 90+ day defaults that may go into foreclosure.

APG - Measure 3a: Reduce residential vacancy rates.

Vacant and abandoned properties that are the consequence of the foreclosure crisis destabilize neighborhoods with high foreclosure rates. This agency priority goal serves as a second key measure of success in HUD's effort to strengthen the housing market to bolster the economy and protect consumers.

Strategy: Mitigate the effects of the foreclosure crisis on neighborhoods by assisting communities that have high rates of foreclosure.

The goal is to ensure that 70 percent of the Neighborhood Stabilization Program 2 (NSP2) [Neighborhood Investment Clusters \(NICs\)](#) outperform comparable areas in vacancy rate reduction. The NSP2 is HUD's primary tool for mitigating the effects of foreclosures on neighborhoods, and this measure will show the progress of this program, specifically, whether vacant homes in NSP2 investment areas are occupied or converted into other viable uses. Additionally, the Office of Single Family Housing continues to reduce residential vacancy rates by decreasing the cycle time associated with selling its Real Estate Owned (REO) properties. In FY 2011, HUD, on average, sold its Single Family REO properties in 192 days, while in FY 2012, REO properties were sold in 136 days on average.

Results:

By the end of FY 2012 Q2, HUD was exceeding its target with NICs beating at least one comparable area by nearly 8 percentage points. Seventy-five percent of all NICs trended better than at least one of their comparable markets when it came to vacancy rate change between the first half of 2008 and the fourth quarter of 2012.

Although more completions still need to be reported, continuing results show strong vacancy rate performance for NICs that received NSP2 investment when compared to comparable neighborhoods.

APG Measure 5a: Preserve affordable rental housing.

Affordability problems have been exacerbated by the recession and the increasing demand for rental housing generated by the foreclosure crisis. At the same time, only about one in four families eligible for Federal rental assistance programs receives assistance. Over the years, Federal housing programs have been financially unable to keep up with the demand to help offset the limitations of the private rental market in providing housing that all families can afford. HUD's rental assistance and some of the community development programs provide affordable rental housing, some with supportive services to vulnerable populations who are low-income, homeless or at risk of homelessness.

Strategy: Preserve affordable rental housing and serve additional families through HUD's affordable rental housing programs.

To increase the total number of families served within available resources, HUD will improve program management and modify policies as necessary (and allowable) to preserve units, increase occupancy and utilization rates, and reduce the number of units converted to market rate housing.

The agency-wide focus on achieving this goal will necessitate a coordinated approach across current program silos, with the potential to achieve cost savings that can be used to serve additional families.

All of HUD's programs that provide rental assistance are integral to achieving the goal, including programs administered by the Office of Public and Indian Housing, the Office of Community Planning and Development, and the Office of Housing.

Results:

HUD has exceeded the FY 2012 Q4 targets by 281 percent, and is currently above the two-year target of 61,000 affordable rental units, with a net unit increase of 113,673. Since this goal tracks the net change of occupied units added and lost, it remains possible that a net loss of units could occur between now and the end of FY 2013. However, due to the highly positive results thus far, the Office of Public and Indian Housing revised their FY 2013 targets for [Tenant Based Rental Assistance \(TBRA\)](#) and Public Housing units.

APG – Measure 6: Reduce homelessness. Veterans are overrepresented in the homeless population, consisting of approximately 13 percent of homeless adults at a given point in time in 2012. [For more information, see the [The 2012 Point-in-Time Estimates of Homelessness Study](#).] Veterans are more likely to be unsheltered and to experience homelessness for longer periods of time than non-Veterans. Veterans have high rates of experiencing Post-Traumatic Stress Disorder, traumatic brain injury, and sexual assault, all of which increase the risk of homelessness.

Strategies: Strategies include better targeting of rental subsidies to Veterans; increased access to permanent supportive housing with intensive support services to address mental health, substance abuse, health, and employment needs; more meaningful employment by coordinating housing with workforce training; better access to financial assistance; and encouraging community crisis response teams that focus on prevention and rapid re-housing activities.

- **Provide additional individuals and families with rental housing subsidies**
- **Provide and increase access to homelessness prevention services**

HUD is helping Veterans obtain or maintain HUD-assisted permanent housing through three primary programs: HUD-VASH; HUD [Continuum of Care \(CoC\)](#) Programs; and the [Homelessness Prevention and Rapid Re-housing Program \(HPRP\)](#).

Results:

In the performance period through FY 2012 Q4, HUD exceeded its goal by 51 percent, serving 29,777 Veterans.

The HUD-VASH program assisted 15,450 homeless Veterans, exceeding their target by 15 percent. A data sharing agreement between HUD and the VA was signed in June 2012 and cross-agency data quality continues to improve, aiding in management for both agencies. HUD also completed a best practices report that compiled information from high-performing HUD-VASH sites and HUD field offices and distributed it to the field in April 2012.



Residents and other guests celebrated the grand opening of Sunflower Terrace, a 160-unit development located at 5050 Sunflower Street in the city of Houston.

Sunflower Terrace utilized financing from the City of Houston's Housing and Community Development Department, HUD's [HOME Investment Partnerships \(HOME\) program](#) and a permanent loan provided by Wells Fargo and the Houston HUD office.



The preliminary data for the CoC program indicates that in fiscal year 2012, 10,252 Veterans received permanent supportive housing. Additionally, HPRP grantees reported serving 6,959 Veterans, 2,884 of which received assistance to get into the HUD-VASH program. While the final data for CoC and HPRP is not available in time for the publication of HUD's Summary Report, they are expected to be available in the Annual Performance Report to be published in the mid-February/March 2013 timeframe.

APG - Measure 13: Increase the energy efficiency and health of the nation's housing stock. Increasing energy efficiency, reducing greenhouse gas emissions, and reducing dependence on foreign oil are priorities of the Obama Administration. HUD has committed to creating energy efficient housing as part of a broader commitment to supporting the development of inclusive, sustainable communities, including an unprecedented Partnership for Sustainable Communities with the U.S. Department of Transportation and the U.S. Environmental Protection Agency, and supported by the newly created HUD [Office of Sustainable Housing and Communities](#). HUD spends a significant share of its rental assistance budget on utilities (both water and energy). Much of HUD's portfolio of public and assisted housing was built before the advent of energy codes, and therefore does not have the level of energy efficiency that has resulted from newer, more energy efficient housing.

Strategy: Support and promote an energy efficient, green, and healthy housing market by providing financing or strengthening incentives for retrofitting existing housing, and for energy efficient new construction through HUD programs.

Results:

HUD has exceeded its expectations for performance in FY 2012, completing a total of 83,051 energy efficient and healthy units and surpassing its annual target of 75,670 by 10 percent. Of these, 85 percent, or 70,533 units, were energy efficient units, and 15 percent, or 12,518 units are lead hazard control or other healthy homes improvements through HUD's [Office of Healthy Homes and Lead Hazard Control](#). The total also includes the use of a unit equivalent method approved by OMB for certain programs.

Note that this is a joint goal with the Department of Energy; together, the two agencies reported a total of 458,348 energy efficient retrofits or new units in FY 2012, and a three-year total (FY 2010-12) of 1.39 million units.

FY 2012 totals include final completed projects financed through the American Recovery and Reinvestment Act of 2009 (Recovery Act), including, for example, the multifamily Green Retrofit Program which, since its inception supported energy and green retrofits of almost 20,000 assisted multifamily units (200 properties) with estimated average savings of 27 percent, and Recovery Act-funded Lead Hazard Control Programs and Healthy Homes Production grants that made over 2,500 low-income private sector units healthy.

APG - Measure 27: Improve program effectiveness by awarding funds fairly and quickly. The timely obligation and subsequent disbursement of funds will positively impact the agency's ability to achieve all of our priority goals. The obligation of a large portion of HUD's competitive program funds has historically been delayed.

Strategy: Standardizing and Streamlining Processes and Procedures

The current NOFA process is hindered by bottlenecks and delays. Standardizing and streamlining NOFA processes and procedures will address many of the known root causes including: the heavy reliance on institutional knowledge, the lack of process documentation, multiple layers of review and approval, and the lack of an effective procedure to resolve points of disagreement.



Photo courtesy of [WORKSHOP8 architecture | planning | design](#). Photo credit: [Jesse Martinez](#)

Funds from HUD's [Public Housing Capital Fund](#) helped the Housing Authority of the City of El Paso build the [Paisano Green Community](#), the first net zero energy public housing development in the nation. The development, which opened in April 2012, is designed to achieve [LEED Homes Platinum](#) and [Enterprise Green Communities Certification](#).

Results:

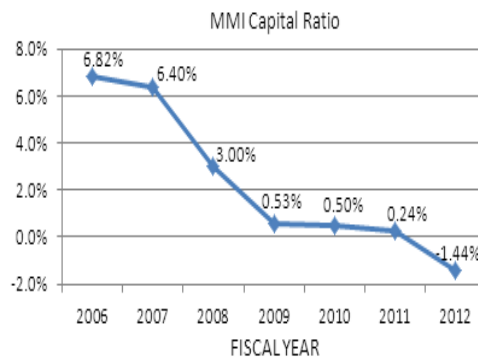
For funds enacted in FY 2012, 46 percent of NOFA Programs were obligated by May 18, 2012 (within 180 days of budget passage), which is well below the target of 90 percent. A risk factor affecting performance is manual tracking of data, which limits accuracy, transparency and timeliness of status updates.

To mitigate the delay, HUD is documenting and standardizing its processes, tracking performance more rigorously, launching some internal information portals, and evaluating means to automate the NOFA clearance process in accordance with the strategies discussed above.

MUTUAL MORTGAGE INSURANCE CAPITAL RATIO

In the [National Affordable Housing Act of 1990](#), Congress created a capital ratio metric for gauging the financial status of FHA’s Mutual Mortgage Insurance (MMI) Fund (12 USC 1711(f)(4)). Today, the MMI Fund encompasses nearly all of FHA’s single family business, including reverse mortgages insured since FY 2009. The capital ratio compares the “economic net worth” of the MMI Fund to the dollar balance of active, insured loans, at a point in time. Economic net worth is defined as a net asset position, where an estimate of the present value of expected future revenues and net claim expenses is added to current balance sheet positions. The capital ratio computation, calculated by an independent actuarial contractor and reviewed by HUD’s Office of Inspector General, is part of a valuation of the outstanding portfolio of insured loans under current market conditions at the end of each fiscal year.

The housing crisis that began in FY 2008 has resulted in the capital ratio falling below the 2 percent threshold for four years in a row. This fiscal year, the ratio fell below zero, to -1.44 percent.



Note: The FY 2006 – FY 2008 ratios are based on unamortized Insurance In Force (IIF) and do not include Home Equity Conversion Mortgage (HECM) loans. The FY 2009 – 2012 ratio calculations use amortized IIF and include HECM loans endorsed starting in fiscal year 2009.

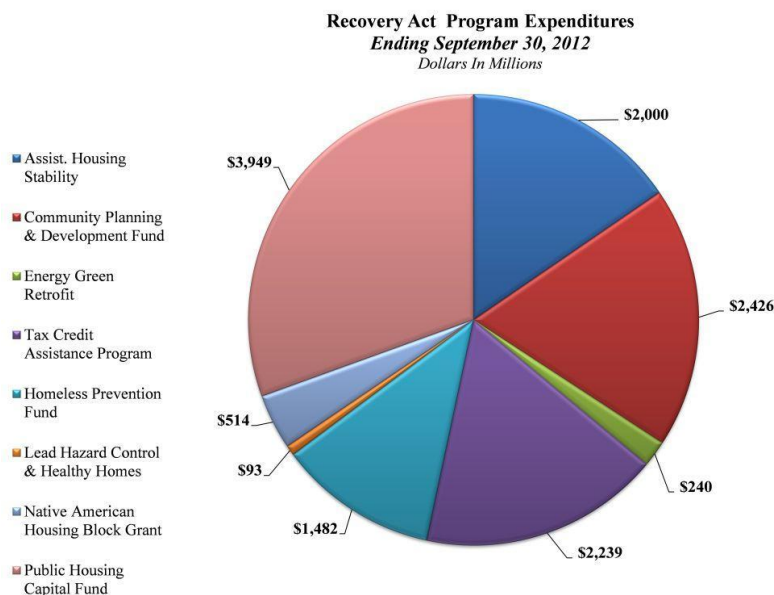
The low capital ratio today reflects an expectation that FHA’s current pool of insured loans still has significant foreclosure and claim activity yet to occur. Projected losses are particularly large for the FY 2006 – 2009 loans. Although a capital ratio of less than zero suggests that FHA may need to call upon its permanent-and-indefinite budget authority with the Treasury for additional support, this result is not necessarily assured.

Due to a series of changes made to the program since 2009, FHA continues to benefit from much stronger borrower credit quality than was experienced in prior fiscal years. FHA will continue insuring loans, and the independent actuary projects that FY 2013 commitments will provide about \$11 billion in additional capital resources. In addition, FHA is undertaking a number of initiatives to reduce losses from legacy loans originated during the height of the crisis. For more information, see [FHA’s Annual Report](#).

THE RECOVERY ACT

The [American Recovery and Reinvestment Act \(Recovery Act\)](#) provided \$13.6 billion for projects and programs administered by HUD, of which nearly 75 percent was allocated via formula grants to state and local recipients and the remaining 25 percent of funds were awarded via competition, with 100 percent of grant and loan funds obligated, and \$12.9 billion (or 95.0 percent) disbursed to grantees by September 30, 2012.

More detailed information on funding allocations and on spending progress of the Recovery Act funds for HUD programs can be found at www.HUD.Gov/Recovery.



Our Financial Information

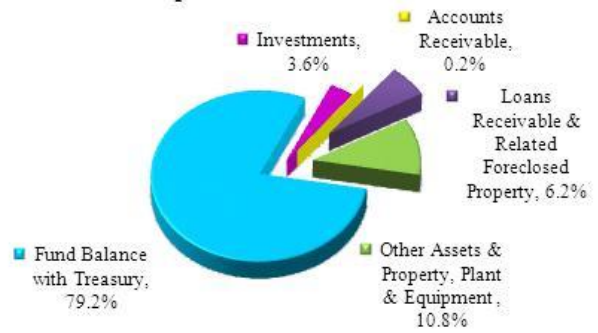
The Department’s financial statements combined the results from the programs HUD administers which include the Federal Housing Administration’s loan guarantee programs, the Government National Mortgage Association’s mortgage-backed securities program, Section 8 rental assistance, Community Development Block Grants (CDBG), the Home Investment Partnerships program, operating subsidies, Public and Indian Housing loans and grants, Housing for the elderly and disabled, and other programs. Below is a summary of financial information for FY 2012. HUD’s financial statements, notes, and additional information appear on pages 64 through 143 of our full FY 2012 AFR.

Summarized Financial Data (Dollars in Billions)

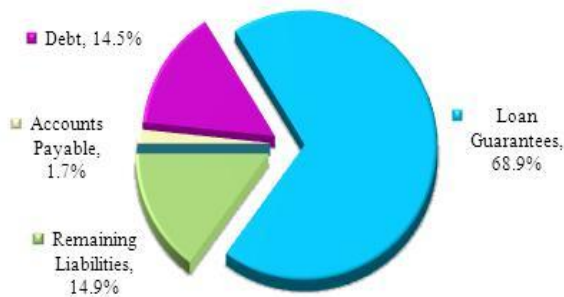
	2012	2011
Total Assets	\$136.7	\$135.9
Total Liabilities	\$80.0	\$51.0
Net Position	\$56.7	\$84.8
FHA Insurance-In-Force	\$1,264.0	\$1,181.5
Ginnie Mae Mortgage-Backed Securities Guarantees	\$1,341.4	\$1,221.7
Other HUD Program Commitments	\$49.8	\$56.9

Assets: Total Assets for FY 2012, as reported in the Consolidated Balance Sheets, are displayed in the adjacent graph. Total Assets of \$136.7 billion are comprised primarily of Fund Balance with Treasury of \$108.2 billion (79.2 percent), Loans Receivable & Related Foreclosed Property of \$8.5 billion, Investments of \$5.0 billion, and Other Assets and Property, Plant & Equipment of \$15.0 billion at September 30, 2012.

Composition of HUD Assets - FY12



Composition of HUD Liabilities

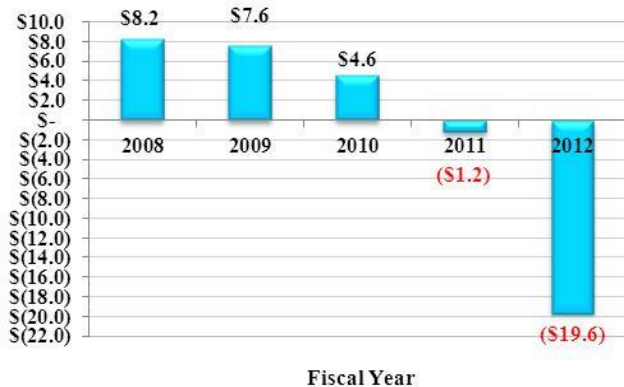


Liabilities: Total Liabilities of \$80.0 billion consist primarily of Loan Guarantees of \$55.1 billion (68.9 percent), Debt in the amount of \$11.6 billion (14.5 percent), Accounts Payable of \$1.3 billion (1.7 percent), and Remaining Liabilities amounting to \$11.9 billion (14.9 percent) at September 30, 2012.

Net Position: Changes in Unexpended Appropriations, Net Cost of Operations, and Financing Sources combine to determine the Net Position at the end of the year. Net Position as reported in the Statements of Changes in Net Position reflects a decrease of \$28.2 billion or (33.2 percent) from the prior fiscal year. The net decrease in Net Position is primarily attributable to an \$8.6 billion decrease in Unexpended Appropriations and a \$19.6 billion decrease in Cumulative Results of Operations.

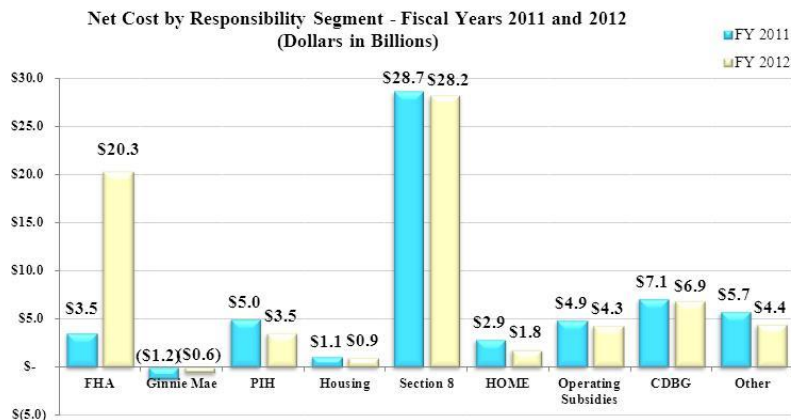
The combined effect of HUD's Net Cost of Operations and Financing Sources resulted in a decrease in Net Change in Cumulative Results of Operations of \$18.4 billion (from \$1.2 billion to \$19.6 billion) during FY 2012. The large decrease in FY 2012 is due primarily to an increase in the Loan Guarantee Liability, which resulted from a large upward re-estimate in FHA's MMI and GI Fund programs. The factors influencing that re-estimate are forecasts of future economic conditions that are less favorable than those of last year. These conditions include lower interest rates and lower house prices over the next few years. Lower interest rates primarily cause a faster run-off of the insured portfolio and, thus, lead to lower guarantee fee income. Lower house prices result in higher expected claim expenses in the future.

Net Change in Cumulative Results of Operations for FY 2008 - 2012
 (Dollars in Billions)



The HECM Loan Guarantee Liability increased due to revised estimates of longer loan longevity and the recessionary effect of more properties being conveyed to HUD rather than sold outright when borrowers exit the home.

Net Cost of Operations: as reported in the Consolidated Statement of Net Cost amounts to \$69.8 billion for FY 2012, an increase of \$12.2 billion (21.1 percent) from the prior fiscal year. Net Cost of Operations consists of total costs, including direct program and administrative costs, offset by program exchange revenues. Net Cost by Program Responsibility Segment is presented in the chart below:



INDEPENDENT AUDITOR'S REPORT

The Office of Inspector General (OIG) of HUD performed an independent audit of HUD's FY 2012 financial statements. The following information is a brief summary of the audit. An external accounting firm conducted independent audits of GNMA and FHA and gave an unqualified opinion on their statements. Audit results provide an important indication of the financial performance, reliability, and management of the public funds entrusted to HUD. The Department received an unqualified opinion on its financial statements for the thirteenth consecutive year. The OIG concluded that a previously identified significant deficiency had risen to the level of a material weakness. The material weakness relates to the OIG's assertion of non-compliance with the Federal Financial Management Improvement Act (FFMIA). As in the past, HUD disagrees with the OIG's conclusion concerning this finding. This disagreement is briefly discussed in the Management Assurances subsection of the [Agency Financial Report](#) (pages 54-56), and in detail in Management's Response to the Independent Auditors' Report for Fiscal Year 2012 that is included in the Audit Report found at http://www.hudoig.gov/Audit_Reports/2013-FO-0003.pdf. In addition, the audit report identified seven significant deficiencies (SDs), two of which were new this fiscal year. During the past fiscal year, the Department succeeded in resolving four SD's from prior years.

In addition to the Material Weakness and SDs, the OIG noted three areas in which HUD did not substantially comply with laws and regulations. For information on the Department's non-compliance with laws and regulations, please refer to the Management Assurances and the Summary of Financial Statement Audit subsections of the AFR.

Management Comment

As mentioned above, HUD received an unqualified opinion from its auditors on the FY 2012 financial statements with a material weakness. Attainment of an unqualified opinion is a high-water mark for any organization. HUD takes internal controls seriously, committing significant resources throughout the agency into numerous efforts and processes to correct and resolve the above issues and strengthen controls. HUD is developing an aggressive remediation strategy with an aim to put in place a new core financial management system as rapidly as possible to address one key OIG concern. This topic is further discussed on pages 56 and 57 in the Management Assurances subsection of the AFR.

HUD management this year identified a material weakness in the area of strategic management of its human capital operations. A remediation plan was developed and corrective actions began during the fiscal year. This weakness is discussed on page 53 of the AFR.

Management And Performance Challenges Summary

In accordance with the Reports Consolidation Act of 2000, HUD's OIG annually identifies the most significant management and performance challenges facing the Department. The following page reflects seven challenges identified by the OIG for FY 2012 along with a key area of progress in addressing each of the noted issues. [The complete OIG memorandum and management's comments are located in Section 3 of the AFR.]

Single Family Programs

- To address sustained losses in this program due to taking on additional risk, FHA increased mortgage insurance premiums, established minimum Fair Isaac Company (FICO) score standards, increasing the minimum down payment, reducing the amount of equity withdrawn on reverse mortgages, and modifying the role of former loan correspondents so they are responsible to direct lenders. Additionally, FHA established policies that require lenders to review borrowers credit, collateral, capacity and cash assets to determine borrower eligibility for FHA insurance.

Oversight Of American Recovery And Reinvestment Act

- HUD has increased on-site monitoring and technical assistance while continuing to review quarterly progress reports and to audit files.

Human Capital Management

- HUD included a Strategic Goal in its FY 2012- 2015 Strategic Plan to transform the way HUD does business to address this issue including sub-goals to (1) build capacity, (2) focus on results, (3) reduce bureaucracy, and (4) change its culture.

Financial Management Systems

- HUD is initiating a discovery effort with a Federal Shared Service Provider (SSP) as part of a formal Alternatives Analysis which will determine the plan for a new path forward to include detailed activities and milestones to move HUD's financial management systems to an SSP.

HOME Program

- HUD proposed new rules which should strengthen HUD's future enforcement authority, providing significant reforms to Community Housing Development Organizations performance and underwriting standards for rental housing and homeownership, developer selection, property standards, deadlines for completing projects, and ongoing monitoring of financial conditions of HOME-assisted projects.

Public And Assisted Housing Program Administration

- Improved the quality of its remote monitoring and have stepped up the onsite monitoring and oversight of the Housing Choice Voucher Program as a result of several new initiatives that have been incorporated in all PIH field offices. These initiatives include the Portfolio Management Tool, the Voucher Forecasting Tool, and implementation of a HCV Utilization Protocol.

Administering Programs Directed Toward Victims Of Natural Disasters

- Significantly revised its Community Development Block Grant-Disaster Recovery (CDBG-DR) monitoring policies to focus on the specific legislative requirements of each CDBG-DR appropriation; added monitoring review guidance for procurement, written agreements, and core recovery activities (e.g., infrastructure, buyouts, economic development). In addition, HUD provided program specific training in 2012 for all CDBG-DR grantees and HUD CPD Field Office staff.

This Report is Available on the Web at:
<http://portal.hud.gov/hudportal/documents/huddoc?id=sr2012.pdf>



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT