

March 10, 2017

Issue: 17-10

Carson Greeted With Financial Fiasco

When former HUD Secretary Julian Castro departed Jan. 20, he left his predecessor HUD Secretary Ben Carson with an almost insurmountable financial mess – how to properly account for the billions of dollars the agency gets from Congress to administer its programs.

The HUD inspector general reaffirms HUD's failure to correct accounting deficiencies and program oversight shortcomings described in a December 2016 IG report showing HUD mismanagement of more than a half-billion dollars.

HAL reported in December (*HAL*, Dec. 02. 2016 No. 16-46) that HUD was lagging in its strategy to get a handle on its accounting practices, a failure fueled by Castro's lack of interest in HUD's functions following the November elections (Castro, once headed for a bright political future as a possible VP candidate, closed out his HUD tenure in virtual political obscurity).

The original HUD IG audit, issued nearly two weeks after the elections, disclosed 11 material weaknesses in its operations, seven significant deficiencies in internal controls, and five instances of noncompliance with applicable law and regulations by HUD officials.

The report followed HUD's refusal to comply with congressional inquiries, a rejection amplified by Castro's refusal to explain HUD's languishing program oversight operations before the Senate Housing Subcommittee.

Failure by Castro to get a grip on financial mismanagement isn't altogether his fault. Castro inherited the mess from former HUD Secretary Shaun Donovan who moved to head the Office of Management & Budget after reorganizing HUD employees to focus on operational transformation strategies. That transformation ultimately ravaged HUD's program oversight capabilities.

It is now three months later and the IG still can't complete an audit even after HUD officials corrected \$520 billion in bookkeeping errors, according to a March 1 investigative follow-up and three years after the errors first surfaced.

The IG's new report says the continuing problems "were due to an inability to establish a compliant control environment, implement adequate financial accounting systems, retain key financial staff, and identify appropriate accounting principals and policies."

The IG highlighted several issues in the December report that reoccur identically in the March report. They include:

- Refusal by HUD lawyers to sign a management letter listing all HUD litigation;
- HUD's improper accounting methods;
- Failure to correctly measure discrepancies in assets and liabilities between general ledger and sub-ledger accounts; and
- Account for \$4.2 million in loan assets from Ginnie Mae's financial statements that lack sufficient support for an audit.

HUD's inefficient use of a shared financial management service contributed to mistakes that forced the department to restate the two years of financial statements, according to the report.

The IG says HUD's inefficient and balky transition of core financial systems to a federal-shared service provider housed at the Treasury Department was a major contributor to the department's financial dilemma. HUD disputes the allegation.

Info: See the latest report at www.cdpublications.com/docs/9111

3/9/17 10:21 PM

Housing Affairs Letter is an independent news service. ISSN # 0018-6554. For more information, go to www.cdpublications.com or call 1-855-237-1396 or email info@cdpublications.com. Subscription rates begin at \$399/year. Sharp discounts are available for multi-year and multi-user subscriptions. Unauthorized reproduction and/or providing access to unauthorized users are violations of federal copyright law.