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THE CABINET - Inside HUD's Financial Fiasco

By [Kelly Patricia O Meara](#)

When President George W. Bush named Mel Martinez to take over the Department of Housing and Urban Development (HUD) from Clinton appointee Andrew Cuomo, he inherited a case study in mismanagement. So bad was the agency's computer system, known as the Central Account and Program System (HUDCAPS), that HUD's 1999 financial records could not be audited. Appalled at the mess, HUD Inspector General (IG) Susan Gaffney gave up on the 1999 records and refused to certify that the agency's finances were in order (see "Why Is \$59 Billion Missing From HUD?" Nov. 6, 2000).

Gaffney since has resigned but, before departing, she certified HUD's fiscal-year 2000 financial records. Officially, the audit says in bureaucratic jargon, "In our opinion, the accompanying principal financial statements present fairly, in all material respects, the financial position of HUD as of Sept. 30, 2000, and the net costs of operations, changes in net position, status of budgetary resources and reconciliation of net costs to budgetary obligations for the fiscal year then ended, in conformity with generally accepted accounting principles."

Insight carefully has reviewed the hundreds of pages of the IG's 2000 audit review. It describes gross mismanagement throughout the agency and, in particular, cites the financial-accounting system as a wreck. It is accordingly difficult to see where anything had changed at HUD from the previous year and even harder to understand how anyone, let alone Gaffney, could say with any confidence that HUD's monies were accounted for and its records "in conformity with generally accepted accounting principles."

The following are just a few examples of the concerns the IG listed about HUD's financial management before throwing up her arms and quitting:

* Office of Management and Budget (OMB) Circular A-127 requires that financial reports be derived directly from the general-ledger accounts. The SF-224 (statement of transaction) financial report (showing monthly disbursements and collections) submitted to the U.S. Treasury was not derived directly from the general-ledger accounts. It was based upon manually entered data on a separate personal-computer database system. When the source financial data is separated from the direct general-ledger

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data, the assurance that the information fairly represents the actual transactions data becomes difficult if not impossible.

* HUD did not perform reconciliations between the data from the Decision Support System (DSS), a database that obtains and stores key **financial** information from various HUDCAPS tables, and the data in the HUDCAPS production tables to ensure accuracy and completeness. Without periodic reconciliation, there is no assurance the DSS is reliable.

* Rejected transactions in the HUDCAPS Document Suspense File were not resolved in a timely manner, and the posting model for the Program Accounting System to HUDCAPS' interface was not updated in a timely manner. As a result, HUDCAPS **financial** data may be neither accurate nor current.

* The department for several years has had difficulty identifying and resolving differences between its accounting records and cash transactions reported by the Treasury. There are many underlying reasons for **HUD's** difficulties. However, to avoid explaining a difference between the amount reported in its general ledger and the amount reported by Treasury, HUD adjusts its general ledger to equal the balance reported by Treasury. In short, it cheats!

None of these accounting problems were new to the IG and, in fact, most of the issues she raised had been reported in previous yearly reviews. And, not surprisingly, the IG said she still believed the most critical need faced by HUD to achieve **financial** control was "to complete development of adequate systems. The lack of an integrated **financial** system in compliance with federal **financial**-system requirements has been reported as a material weakness since 1991." Gaffney further pointed out that "the department's **financial**-management systems, including its core **financial** system, do not fully comply with federal **financial**-system requirements."

The core **financial** system that is not compliant with federal regulations, and that apparently was the No. 1 reason the IG found for **HUD's** **financial**-data problems, is a product of American Management Systems (AMS). The Fairfax, Va.-based information-technology consulting firm was cofounded by Charles O. Rossotti, the current commissioner of the Internal Revenue Service (IRS) who despite apparent conflicts of interest remains a major stockholder (see "A Taxing Dilemma," April 23).

In 1993, AMS sold to HUD its Federal **Financial** System (FFS), which over the years has evolved into HUDCAPS, the central standardized accounting system for the housing agency. Along with selling the system, AMS is responsible for maintenance and support of HUDCAPS. For years the IG reported outrageous problems with this **financial** system, yet to date they remain unresolved. But contractor AMS nonetheless has received hundreds of millions of dollars in payment for this system that IG reports indicate does not perform or meet federal guidelines. In fact, many familiar with **HUD's** audit problems wonder how, even after \$206 million has been dumped into the AMS system during an eight-year period, it still does not function properly.

Insight has learned that the performance of HUDCAPS apparently is so bad that HUD officials now intend to trash the system and replace it with commercial off-the-shelf software - even though in 1998 HUD management made HUDCAPS its core **financial** system and invested \$55 million in additional system development and enhancements.

If HUD does junk the HUDCAPS system the question many may ask is whether AMS will be called on to return the hundreds of millions of dollars it received for a system that for all intents and purposes does not work.

To get answers to this and related inquiries Insight made repeated

entreaties to HUD officials, including Secretary Martinez. Two pages of questions were sent not only to Martinez but also to HUD's public-affairs office and the office of the IG. In an unprecedented example of stonewalling, not only did Martinez decline requests for an interview, but both public affairs and the IG referred Insight's questions about the 2000 audit to HUD's Freedom of Information Act Office (FOIA), where they apparently have been buried.

All the questions posed to officials at HUD dealt specifically with **financial** data, which by law is public information to be released on request and not subject to being hidden behind circumnavigations such as FOIA, a familiar tactic under Cuomo. Insight still has not received information about HUD's 1999 audit requested from the FOIA office last October.

Congress is the governing body that has oversight of HUD. It increased the department budget despite the fact that the IG was unable to make heads or tails of HUD's finances in 1999. With \$59 billion unaccounted for in 1999, Congress still has not reviewed HUD's 2000 audit. Insight spoke with the staff of Rep. Steve Horn, R-Calif., chairman of the House Government Reform subcommittee on Government Efficiency, **Financial** Management and Intergovernmental Relations, who has been a watchdog on these issues. Horn's spokeswoman said he was unaware of the IG's review but, upon learning of HUD's intention to overhaul its **financial**-management system, told Insight, "The subcommittee is very concerned about this issue. We don't want to see a lot of money wasted, and we'll be looking into it when the subcommittee holds hearings on HUD's **financial** audit report. It's a huge issue."

Most Americans no doubt would agree the need to trash a failed system that has cost taxpayers hundreds of millions of dollars is indeed huge. But what may be more significant and important to taxpayers is the number of other federal agencies that also use the AMS FFS **financial**-management software and are finding themselves in the same foundering boat. Insight has learned that AMS quietly is managing to become the premier software company to the federal government. Its software currently is being employed in 65 federal agencies, including the departments of State, Defense, Treasury (including the IRS), Agriculture and the Interior, as well as the U.S. Customs Service, the General Accounting Office, the Office of Personnel Management, the Securities and Exchange Commission and the Federal Deposit Insurance Corp.

Have these federal agencies experienced the kinds of problems that proved disastrous at HUD? That is a story for another day. Meanwhile, Rossotti's AMS has become a major target even at the state level. Both the states of Mississippi and Kansas are on record as having serious problems with the AMS **financial**-management software. Mississippi went so far as to sue AMS, winning a record \$185 million judgement (see "A Taxing Dilemma," April 23). Like officials at HUD, AMS has not responded to Insight's calls. Stay tuned.

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