

Message from the Deputy Chief Financial Officer

December 4, 2013

I am writing to inform you that the U. S. Department of Housing and Urban Development (HUD) recently became aware of a potential material understatement of assets affecting our comparative financial statements as of and for the fiscal years (FY) ended September 30, 2011 and 2012, which were issued November 15, 2012, and accompanied by the Office of the Inspector General's report issued on November 15, 2012. Based on preliminary information, it appears that significant amounts of assets and liabilities were misreported in HUD's consolidation of financial statements from an operating component, Government National Mortgage Association (GNMA). The Department and GNMA properly use different accounting standards, but this restatement more clearly defines the accounting standard HUD should use when presenting a consolidated financial statement that includes GNMA. Therefore, the statements included in the Department's FY 2012 comparative financial statements cannot be relied on as they were presented. Separately, another issue found concerns certain assets due from the establishment of prepayments from our rental assistance programs that were not recognized in the Department's FY 2012 financial statements.

The Department's consolidated financial statements were restated to comply with Federal Accounting Standards Advisory Board (FASAB) reporting requirements. A principal operating component of the Department, GNMA, properly prepared its stand-alone financial statements under Financial Accounting Standards Board (FASB) accounting standards as required by their government charter. The Department's consolidated financial statements are prepared under FASAB which differs from FASB accounting standards. The Department performed an analysis of applicable accounting standards which resulted in a restatement of HUD's consolidated financial statements, which includes the reporting of obligations in conformance with federal government reporting standards.

We are required by Office of Management and Budget (OMB) Circular A-136 to promptly inform those persons known to be relying or who are likely to rely on HUD's financial statements and the related audit report should we become aware of potential material misstatements in our previously issued financial statements. Accordingly, this letter serves as notification to you that the Department's FY 2012 comparative financial statements and related audit report should not be relied upon.

We are also providing similar notifications to the other external parties to which the Department's FY 2012 comparative financial statements were directly distributed. The Department's restated FY 2012 comparative financial statements and related audit report will be included in the Department's FY 2013 Agency Financial Report.

Based on initial assessments, a substantial level of effort is required to address these issues, including the establishment of operating procedures and the valuation of program data to assess its impact on the Department's financial statements. We are developing a plan to resolve these issues expeditiously, in consultation with the Office of Inspector General and responsible Departmental offices, and expect to be completed in FY 2014.

The Department is committed to resolving this matter as quickly as possible. Please contact the Office of the Chief Financial Officer at (202) 402-6736, should you have any questions or require additional information.



David P. Sidari