

July 3, 2013

Memorandum

TO: Wendy M. Payne
Executive Director, Federal Accounting Standards Advisory Board

FROM: Randy W. McGinnis
Assistant Inspector General for Audit, GA

SUBJECT: Reporting Entity Exposure Draft Comments

The HUD's Office of Inspector General (HUD-OIG) appreciates the opportunity to comment on FASAB's Reporting Entity Exposure Draft (ED). The ED asked the respondents to comment on 11 specific questions. While we support the Board's position on questions 1 – 4 and 6-11, we have concerns related to question number 5 and how this would impact our agency if the Board's proposed accounting standard is ratified. Our comments discussed in detail below reflect our views on the issue as it relates to question number 5.

Q5. For consolidation entities, the Statement proposes that FASAB and Financial Accounting Standards Board (FASB) based information should be consolidated without conversion of FASB based information to a FASAB basis. Do you agree or disagree that consolidation of FASAB and FASB-based information without conversion for consolidation entities is appropriate? Please provide the rationale for your answers.

Response: We do not agree that the consolidation FASAB and FASB based information without conversion is appropriate. HUD insures mortgages for single family and multifamily dwellings through its mortgage insurance programs administered by Federal Housing Administration (FHA). HUD also guarantees, through Government National Mortgage Association (Ginnie Mae), the timely payment of principal and interest on Mortgage-Backed Securities issued by approved private mortgage institutions and backed by pools of mortgages insured by the FHA, U.S. Department of Agriculture, U.S. Veterans Affairs, and HUD's Office of Public and Indian Housing. As component entities, Ginnie Mae (prepared using FASB standard) and FHA's financial information (prepared using FASAB standard) are reported to HUD for consolidation.

In HUD-OIG's view, consolidating financial information using different basis of accounting can provide misleading information to the users of HUD's financial statements. This is true, even with additional disclosures, especially in instances where material differences between FASB and FASAB accounting standards could result in very different accounting outcomes. This scenario applies to HUD because Ginnie Mae's FASB based information is reported to HUD for consolidation and the FASB and FASAB conversion information is material

to HUD's group financial statements. Further, transactions between Ginnie Mae and FHA (as component reporting entities of HUD) with regard to defaulted insured mortgages had generated material intragovernmental balances and activities in their respective books in recent years, but each prepare stand-alone financial statements using FASB and FASAB accounting standards respectively.

The Board also indicates that, as a consideration for its proposal to allow consolidation of different basis of accounting without conversion, the conversion imposes a cost and it is not clear that the cost is justifiable based on the benefits to the user. However, the additional disclosure provision in the ED would most certainly require entities to incur additional disclosure costs already and therefore the cost conversion concern should not have significant incremental effect.

Accordingly, we recommend the Board to reconsider its position to not allow consolidation without conversion in cases where material differences exist between FASB and FASAB accounting standards. Additionally, with respect to the additional disclosure requirement on intragovernmental amounts proposed in the ED, the Board needs to clarify whether the requirement is only required in the component entity's stand-alone financial statements or both the component and parent/group management entity's financial statements.

Thank you for the opportunity to provide our views. We would be happy to meet with the FASAB staff to more fully explain the reporting differences and the effect on the consolidated financial statements. If you have any questions or comments regarding this letter, please do not hesitate to contact me at 202-402-8107.

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Concurrence:

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