



AUDIT PLAN
As of March 1, 2007
OFFICE OF INSPECTOR GENERAL
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

OIG Audit Plan

Overview

The U.S. Department of Housing and Urban Development's (HUD) primary challenge is to find ways to improve housing and expand opportunities for families seeking to better their quality of life. This audit plan provides coverage of HUD's program areas and management/organizational reforms. It gives full consideration to the Department's management challenges identified by the Office of Inspector General (OIG) and reported to Congress annually, the President's Management Agenda for improving government performance, and OIG's strategic plan.

The President's Management Agenda is designed to improve the overall efficiency and effectiveness of the federal government and to address significant management deficiencies at individual agencies. HUD has made plans and taken action in an attempt to meet the goals set by the president.

The President's Management Agenda includes governmentwide and HUD-specific initiatives that are tracked and scored in terms of both baseline goal accomplishment and the adequacy of plans and progress toward achieving established goals. At HUD, these initiatives are addressing longstanding management problems that will take multiple years to resolve. According to its reporting, HUD has adequate plans and is making good progress toward achieving the president's goals for more efficient and effective management of HUD's resources. HUD's scores have improved steadily over the past few years and HUD was the first agency to achieve a "green" score for the "Eliminating Improper Payments" initiative.

The President's Management Agenda for improving government performance includes:

- Strategic management of human capital
- Competitive sourcing
- Improved financial performance
- Expanding electronic government
- Budget and performance integration
- HUD's management and performance
- Eliminating Improper Payments
- Faith Based and Community Initiative

The President's Management Agenda basically mirrors the challenges that our office and the Government Accountability Office (GAO) have reported to Congress. Further discussion of the challenges and their relationship to planned and completed audit work is provided in the audit environment section of this plan.

The HUD Office of Inspector General – Office of Audit

HUD OIG is one of the original 12 Offices of Inspector General established by the Inspector General Act of 1978. OIG provides independent oversight of HUD's programs and operations. While organizationally located within the Department, it maintains independence to initiate and carry out audits and investigations.

The HUD OIG Office of Audit's activities are designed to promote economy, efficiency, and effectiveness in the administration of HUD programs; detect and deter fraud and abuse in HUD programs and operations; and ensure compliance with applicable laws and regulations.

Under the leadership of the inspector general, the assistant inspector general for audit, along with two deputy assistant inspectors general for audit, is responsible for managing the Office of Audit. The headquarters offices, each supervised by a director, include the Financial Audits Division, the Information Systems Audits Division, and the Technical Oversight and Planning Division. In the field, there are eight regional offices throughout the country and a Hurricane Recovery Audit Operations Division in New Orleans, each supervised by an audit manager.

The Audit Planning Process

Audit planning at OIG is a continuing process that focuses our resources on areas of greatest current benefit to our stakeholders. Our broader goal in developing an audit plan is to help HUD resolve its major management challenges while maximizing results and providing responsive audits.

Because the process is dynamic, OIG can quickly make adjustments and address new requests throughout the year. Potential review areas are developed through our discussions with program officials, the public, and Congress; our audits in each region; the annual financial statement audits; and our reviews of proposed legislation, regulations, and other HUD issuances.

HUD management and Congress are also encouraged to provide issues and concerns for potential inclusion in the audit plan. Formal updates to the audit plan are decided during periodic conferences with OIG audit managers. Final approval of the audit plan rests with the assistant inspector general for audit, who monitors the progress of each audit.

Audit Environment at HUD

The Department's primary challenge is to find ways to improve housing and expand opportunities for families seeking to better their quality of life. HUD does this through a wide variety of housing and community development programs aimed at helping American families. These programs are funded through HUD's \$30+ billion annual budget. Additionally, HUD assists American families by insuring FHA mortgages for single-family and multifamily properties. FHA's outstanding mortgage insurance portfolio exceeds \$400 billion.

While HUD is a relatively small agency in terms of staff, it relies on the performance and integrity of a large group of entities to administer its many diverse programs. Among HUD's administrators are hundreds of cities that manage HUD's Community Development Block Grant funds, thousands of public housing authorities (PHA) and multifamily housing projects that provide HUD assistance, and thousands of HUD-approved lenders that originate FHA-insured loans.

HUD's housing finance and subsidy programs represent hundreds of billions of dollars in long-term federal financial commitments. Its public housing and community development programs impact the lives of millions of low-income households and the conditions of most American communities. A shrinking HUD staff has led to an ever-growing reliance on outside program partners and contractors to perform many critical program functions.

HUD has made significant financial and management reforms over the years. These reforms resulted in HUD's removal, in January 2007, from GAO's "high risk" list for the first time in thirteen years. OIG recognizes HUD's efforts to address its long standing problems and continues to work with the Department. As noted by GAO, it will be important for HUD to place a high priority on efficient and effective management of its single-family mortgage insurance and rental housing assistance programs as proposed program changes could introduce new risks and oversight challenges.

Goal #1 of HUD-OIG's strategic plan is to help HUD resolve its major management challenges by being a relevant and problem-solving advisor to the Department. A new major challenge to HUD is addressing disaster relief in response to natural disasters. Pursuant to this goal, the strategic plan lays out four objectives:

- *Contribute to improving the integrity of single-family insurance programs*
- *Contribute to a reduction in erroneous payments in rental assistance programs*
- *Contribute to improving HUD's execution and accountability of fiscal responsibilities*
- *Contribute to resolving significant issues raised or confronted by HUD and our stakeholders*

Improving the Integrity of Single-Family Insurance Programs

FHA is the federal government's single largest program to extend access to homeownership to individuals and families who lack the savings, credit history, or income to qualify for a conventional mortgage. At the end of fiscal year 2006, FHA had about \$346 billion in outstanding single-family mortgages, down from \$364 billion in 2005.

Consistent with GAO's removal of the single-family mortgage insurance programs from its high-risk area, OIG continues to reduce our audits of single-family lenders and loan origination. OIG reduced its goal for single-family-related audits to 20 during 2007 and expects to meet that goal. Lenders are targeted for audit through the use of data mining techniques, along with prioritizing audit requests from outside sources. All appropriate enforcement actions will be pursued against lenders through referrals to the Mortgagee Review Board, the Enforcement Center, and our own Office of Investigations.

Reducing Erroneous Payments in Rental Assistance Programs

HUD provides housing assistance funds under various grant and subsidy programs to multifamily project owners (both nonprofit and for profit) and PHAs. These intermediaries, in turn, provide housing assistance to benefit primarily low-income households.

The Office of Public and Indian Housing provides funding for rent subsidies through its public housing operating subsidies and tenant-based Section 8 rental assistance programs. These programs are administered by PHAs, which are to provide housing to low-income families or make assistance payments to private owners who lease their rental units to assisted families. In fiscal year (FY) 2006, HUD anticipates that there will be approximately 1.2 million public housing units occupied by tenants. These units are under the direct management of approximately 3,500 PHAs.

The Office of Housing administers a variety of assisted housing programs including parts of the Section 8 program and the Section 202/811 programs. These subsidies are called “project-based” subsidies because they are tied to particular properties; therefore, tenants who move from such properties may lose their rental assistance. Project-based rental assistance under Section 8 will exceed \$5 billion.

In 2001, a HUD study found that 60 percent of all rent and subsidy calculations performed by administrative intermediaries contained some type of error. HUD overpays hundreds of millions of dollars in low-income rent subsidies due to the incomplete reporting of tenant income and the improper calculation of tenant rent contributions. Weaknesses exist in HUD’s control structure such that HUD cannot be assured that these funds are expended in accordance with the laws and regulations authorizing the grant and subsidy programs.

Under the President’s Management Agenda, HUD exceeded its goal to reduce rental assistance program errors and resulting erroneous payments 50 percent by 2005. HUD’s Rental Housing Improvement Project is a secretarial initiative designed to reduce errors and improper payments by 1) simplifying the payment process; 2) enhancing administrative capacity; and 3) establishing better controls, incentives, and sanctions.

HUD made significant improvements in the area of erroneous payments. To reduce improper rental assistance payments, HUD's Office of Public and Indian Housing and Office of Housing worked with their housing industry partners and tenant advocacy groups to improve program guidance, training and automated systems support. HUD developed and implemented the Enterprise Income Verification System (EIV) - a web-based, state of the art system - to share income data in other federal databases with public housing authorities to improve their income verification process. According to HUD, these collective actions led to a 60 percent decline in gross improper payments between 2001 and 2005.

OIG’s will continue to focus on this program area. Our plan calls for the same number of audits as last year. Our reports continue to report on significant issues related to this program area.

Improving HUD’s Execution and Accountability of Fiscal Responsibilities

HUD has moved forward over the past two years to enhance and stabilize its existing financial management systems operating environment to better support the Department and produce auditable financial statements in a timely manner. HUD efforts resulted in HUD programs being removed from GAO’s high-risk list in January 2007.

HUD is focused on HUD-specific information technology management improvements. It continues its efforts to improve the information technology (IT) capital planning process, convert to performance-based IT service contracts, strengthen IT project management to better assure results,

extend the data quality improvement program, and improve systems security on all platforms and applications.

HUD developed a new budget process with a focus on collecting and using quality performance information, utilizing full cost accounting principles, and emphasizing program evaluations and research to inform decision makers. Staffing and other resources are intended to align with strategic goals, objectives, and accomplishments.

As in the past, OIG will review a variety of HUD programs with the objective of improving efficiency and effectiveness. One area of particular emphasis will be Community Planning and Development, in which we plan to perform at least 20 reviews of various functions and entities.

Resolving Significant Issues Raised or Confronted by HUD and our Stakeholders

Congress has increasingly tasked the Office of Audit with unfunded legislated audit work. For example, the Appropriations Committee tasked OIG with audit responsibility for the \$3.5 billion in disaster recovery assistance funding provided to New York City as a result of the September 11, 2001, terrorist attacks. The task involves reporting every six months.

In addition to the HUD-specific mandates issued by Congress, all OIGs must meet several governmentwide legislative mandates annually. The two most significant requirements are the financial audits required by the Chief Financial Officers Act and the review of information security policies required by the Federal Information Security Management Act (FISMA).

More recently, the Office of Audit has been tasked to review HUD's activities related to Gulf Coast hurricane disaster relief efforts. This has resulted in the establishment of a Hurricane Recovery Oversight Division, to be the focal point for all audits in the coming years relating to HUD's relief efforts and to coordinate with other agencies OIGs that are involved in the overall effort.

ONGOING AND PLANNED INTERNAL AUDITS

**Audit addresses goal to reduce fraud in single family lending*

***Reduce erroneous payments in rental assistance programs*

**** Improve HUD's execution of fiscal responsibilities*

Program areas/objectives	Lead region	Start date	Final report target date
Single Family Housing/FHA			
Single-family real estate owned property sales (PH 06 0006): To determine whether investors are appropriately obtaining real estate-owned properties.	Philadelphia	Feb. 2006	Issued 01/12/2007 2007-PH-0001
Review of automated underwriting of 20-year loans (KC 07 0005): To determine whether the underwriting system appropriately evaluates risk on 20-year loans.	Kansas City	Nov. 2006	Issued 01/26/2007 2007-KC-0001
HUD's monitoring of single family FHA lenders (KC 06 0024): To determine whether the Office of Single Family Housing is monitoring lender compliance with FHA origination requirements and imposing appropriate sanctions.	Kansas City	Aug. 2006	May 2007
Title II manufactured housing foundations (KC 06 0023): To determine whether HUD ensures requirements for foundations are met prior to insuring manufactured housing.	Kansas City	Aug. 2006	May 2007
HUD's oversight of the real estate owned management and marketing contracts (PH 07 0002): To determine adequacy of HUD's oversight of M&M contractor operations and REO sales and identify vulnerabilities.	Philadelphia	Oct. 2006	Sep. 2007
Review of automated underwriting system referrals for manual underwriting (KC 07 00xx): To determine whether referrals for manual underwriting are in compliance with FHA underwriting requirements.	Kansas City	June 2007	
FHA single family homes in flood zones (CH 07 00xx) To determine if FHA insured homes located in flood zone have adequate flood insurance	Chicago	June. 2007	
M&M Contractor's Procedures for Managing REO Properties. (PH 07 00xx) To determine whether HUD's Management and Marketing contractors are properly managing Single Family Real Estate Owned properties.	Philadelphia	Sept 2007	

Program areas/objectives	Lead region	Start date	Final report target date
Enforcement of FHA's single-family underwriting requirements (KC 07 00xx) To review HUD's enforcement of its underwriting requirements and its impact on the FHA insurance fund.	Kansas City	Sept. 2007	
Community Planning and Development			
Nationwide Community Development Block Grant (CDBG) funds addressing urgent needs (NY 07 0004): To determine whether HUD is monitoring use of CDBG funds to ensure that distressed cities are addressing their urgent needs.	New York	Oct. 2006	
Public and Indian Housing			
Enterprise Income Verification System (KC 07 00xx): To evaluate the accuracy of information in the Enterprise Income Verification System.	Kansas City	June 2007	
Section 8 over housing (FW 06 0031): To determine the extent, causes, and impact of over housing, particularly in Authorities with 500 or fewer housing choice vouchers.	Fort Worth	Sept. 2006	July 2007
Navajo use of nonprofit housing providers by tribal housing entities (LA 06 0022): To determine whether Native American housing agencies have adequate controls to ensure effective use of resources controlled by outside entities retained to help develop housing.	Los Angeles	June. 2006	
HUD monitoring of Section 8 housing quality standards (HQS) (AT 07 00xx): To determine what HUD does to ensure Section 8 units meet HQS or enforce requirements when housing authorities do not comply.	Atlanta	June 2007	
Multifamily Housing/FHA			
Use and distribution of residual receipts (KC 06 0021): To determine whether HUD (1) is using residual receipts as a source of funds when renewing expiring Section 8 housing assistance contracts for insured multifamily projects, (2) has adequate controls over residual receipts, and (3) receives and monitors financial information about uninsured Section 8-assisted properties managed by state housing agencies that generate significant residual receipts.	Kansas City	July 2006	Issued 01/29/2007 2007-KC-0002

Program areas/objectives	Lead region	Start date	Final report target date
Section 202 direct loan program for elderly and handicapped (FO 06 0035): Determine whether reported construction loans are in compliance with the mortgage note, loan amount, interest rate, term of note, beginning date of the loan, and monthly payment.	Financial audit	Mar. 2006	April 2007
Corrective Action Verification of excess insurance proceeds for tax-exempt bond-financed properties that have defaulted (KC 07 0020): Determine whether HUD has implemented controls and procedures to recapture excess insurance proceeds that have been paid on claims for tax-exempt bond-financed projects.	Kansas City	Aug. 2006	April 2007
Multifamily Accelerated Processing review (BO 07 0008): To determine whether approved FHA lenders comply with requirements for preparing, processing and submitting loans for FHA multifamily mortgage insurance.	Boston	Dec. 2006	
Utilization of Fee Inspectors (BO 07 00xx) To determine whether HUD is effectively using contractual fee inspectors to monitor third-party contractors renovating HUD-insured properties.	Boston	Sept. 2007	
Public and Indian Housing			
Community Service and Self-sufficiency requirements (KC 07 00xx) Is HUD requiring Housing Authorities to enforce this law and if so, how and to what extent?	Kansas City	Sept. 2007	
HUD oversight of Section 8 project based voucher. (CH 07 00xx). To determine the extent of HUD's oversight of the Section 8 project based vouchers	Chicago	Nov. 2007	
Using Public and Indian Housing (PIH) Information Center (PIC) Inspection Data to Identify Substandard Section 8 Units (FW 07 00xx). Determine whether HUD should be requiring authorities to include HQS failure data in PIC and whether HUD should use the data as part of their risk assessments to ensure that authorities eliminate substandard units from their HCV inventory and/or remove problem tenants from their rent rolls.	Fort Worth	Sept. 2007	

Program areas/objectives	Lead region	Start date	Final report target date
Information Systems (IS) audits			
HUD procurement systems (DP 06 0012): To assess functionality and controls for accurate, prompt, and secure processing of transactions.	IS Audit	Jan. 2006	Issued 01/25/2007 2007-DP-0003
FY 2006 FISCAM (DP 06 0014): To assess computer-related controls over the integrity, confidentiality, and availability of computerized data, particularly financial data, for the FY 2006 Consolidated Financial Statement Audit in accordance with FISCAM.	IS Audit	Jan. 2006	Issued 02/22/2007 2007-DP-0004
FY 2006 FISMA – Entity wide security (DP 06 0016): FISMA requires Executive Branch OIGs to perform an annual evaluation of their department’s IT security management program and report to the Office of Management and Budget in a prescribed questionnaire. HUD compliance with OMB M-06-16 Audit report with recommendations.	IS Audit	Apr 2006	Issued 09/29/2006 2006-DP-0803 09/21/2006 2006-DP-0802 March 2007
HUD’s Information Technology Services (HITS) contract and modification process (DP 06 0010): To determine whether the HITS contract is meeting intended economies and benefits, performance measures currently in place are effective, and HUD’s processes to determine the need and cost reasonableness for contract modifications is adequate.	IS Audit	Jan. 2006	Issued 01/18/2007 2007-DP-0002
Network Vulnerability Assessment (DP 07 0004): Determine if the security implemented on HUD’s network provides adequate controls to prevent abuse or unauthorized access to the Department’s information resources.	IS Audit	Nov 2006	Jul 2007
Review of HUD’s Personal Identity Verification & Privacy Program (DP 07 0011): Determine whether HUD’s efforts to implement the common identification standards for contractors and Federal employees adhere to Federal laws and guidelines governing privacy, personnel security, and information technology security.	IS Audit	Jan 2007	Jul 2007

Program areas/objectives	Lead region	Start date	Final report target date
Review of Unisys Performance and Security Controls (DP 07 0012): Determine whether Unisys operating system's performance and security controls are in compliance with applicable Federal laws and guidelines. We will also determine whether operational, management, and technical controls are in place and adequately protect HUD's data and resources.	IS Audit	Jan 2007	Sept 2007
Review of FHA's Controls Over its Information Technology Resources (DP 07 0013): Determine whether FHA's management of its information systems and their compliance with HUD IT policies and federal information system security requirements, and federal financial management requirements.	IS Audit	Feb 2007	Dec 2007
FY 2007 FISCAM (DP 07 00xx): To assess computer-related controls over the integrity, confidentiality, and availability of computerized data, particularly financial data, for the FY 2006 Consolidated Financial Statement Audit in accordance with FISCAM.	IS Audit	Mar 2007	
FY 2007 FISMA (DP 07 00xx): FISMA requires Executive Branch OIGs to perform an annual evaluation of their department's IT security management program and report to the Office of Management and Budget in a prescribed questionnaire.	IS Audit	Apr 2007	
Child predators in Public Housing (DP 07 00xx) To develop and perform a computer match to identify child predators in public housing.	Kansas City IS Audit	Mar 2007	
Ineligible immigrants in public housing program (NY 07 00xx) Determine through computer matching ineligible immigrants participating in the Housing Choice Voucher and Low-Rent Public Housing programs that are ineligible to receive assistance from HUD.	New York IS Audit	Sept. 2007	
Community Planning and Development			
Use of HUD funds to supplement general government funds (BO 07 00xx). To determine if HUD ensures that Community Development Block Grant funds are not supplanting general government funds.	Boston	Sept. 2007	

Program areas/objectives	Lead region	Start date	Final report target date
HUD funding of Colonias (FW 07 00xx) Determine if HUD programs have been effective at addressing Colonias problems and if resources used in the most efficient manner.	Fort Worth	Sept. 2007	
Administrative/Other			
FHEO's Use of Home Mortgage Disclosure Act Information (HMDA) (KC 07 00xx) To determine whether FHEO uses HMDA demographic information to develop indicators for targeting geographic areas or lenders for investigation.	Kansas City	Sept. 2007	
HUD's contract administration (AT 07 0001): Determine if HUD administered its contracts in accordance with federal and its own procurement requirement.	Atlanta	Dec. 2006	Sept 2007
Evaluate HUD's management of human resources (CH 07 0012): To assess HUD's implementation of REAP/TEAM with a focus on how HUD manages its contracting resources.	Chicago	Jan 2007	

EXTERNAL AUDITS

Planning for external audits is subject to numerous factors, such as complaints, requests from HUD and congressional staff, and media attention, all of which cannot be predicted or anticipated. The planning of external audits, therefore, is intended to be flexible to enable OIG to perform the highest priority work on hand. Depending on the volume and nature of audit requests, OIG intends to selectively target high-risk programs and jurisdictions. Priorities have been determined based on the HUD OIG strategic plan and areas of interest to OIG stakeholders, particularly Congress. Of particular interest this year are disaster relief efforts. With this in mind, the following types of external audits have been identified as priority areas during this planning cycle. As the opportunity permits, OIG audit managers will focus their audit resources in the following areas.

Community Planning and Development: In an effort to continue emphasis on improving efficiency and effectiveness, OIG is increasing its emphasis on this program area. In addition, hurricane recovery funding is being provided primarily through Community Development Block Grants. Congress continues to take interest in the use of hurricane funds to ensure that they are reaching those who need them.

Public and Indian Housing: The low-income program serves approximately 1.2 million households. The Section 8 Housing Choice Voucher program serves more than 1.8 million households. As part of an overall OIG initiative, tenant eligibility and accuracy of rental assistance payments will also be an area of audit focus. The quality of housing and the cost of administering these programs continue to be concerns that will be addressed as workload permits. PHA development activities carried out by affiliated nonprofit entities is another area of emphasis that will be addressed as resources permit.

Mortgagee audits: Single-family lender audits continue to be a priority for FY 2007 due to the abuses being experienced in single-family programs. A specialized audit program has been developed for the purpose of targeting lenders for audit considering a number of high-risk indicators. In addition to being a part of goal #1 in HUD OIG's strategic plan, there continues to be congressional interest in our audits of the single-family program.

Multifamily project audits: Audits of multifamily project operations continue to be an area of interest in FY 2007. The focus of these audits will be on the misuse of project operating funds, also known as equity skimming.

Nonprofit grantees: Continued concerns over the capacity of nonprofit entities receiving funding from HUD programs require that audits of such activities be given priority. HUD's emphasis on the Faith-Based initiative will increase the level of funding to organizations that have traditionally not participated in federal programs and may lack the capacity to comply with all grant requirements. Of particular concern are several Community Planning and Development programs including Entitlement and Supportive Housing Grants. Based on referrals from HUD program staff, we will give priority attention to auditing nonprofits. For those selected, we will evaluate the control systems in place, especially for subrecipients of HUD grant funds, to determine whether these controls provide the review and oversight necessary to ensure that funds are spent on eligible activities and put to good use.