



AUDIT PLAN
As of December 1, 2006
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 that are 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. This is clearly reflected in HUD's reporting on baseline goal accomplishment scores. 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.

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
 - Improving the performance of housing intermediaries
 - Reducing overpaid rent subsidies
 - Improving Federal Housing Administration (FHA) risk management
 - Strengthening program controls
 - Reducing meaningless compliance burdens

The President's Management Agenda basically mirrors the challenges that our office and the General 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 the deputy assistant inspector 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. There are eight regional offices throughout the country, each supervised by a regional inspector general for audit.

The Audit Planning Process

Audit planning at OIG is a continuing process that focuses our resources on areas of greatest current benefit to our customers. 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 with about 9,300 nationwide, 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.

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*

OIG has given priority to audits of single-family loan origination abuses, rental assistance payment programs, and HUD fiscal systems in prior periods. With the results of our efforts over the past two years, we are better able to focus more on our other three objectives.

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. In 2005, FHA had more than \$363 billion in outstanding mortgages for approximately four million households.

FHA has made a commitment to address deficiencies in the loan origination performance of FHA-approved lenders by monitoring loans and terminating lenders that make loans with excessive loss rates. Under FHA's Credit Watch initiative, lenders whose portfolio default and claim rates are twice the rate experienced in their geographic area are identified for termination.

Consistent with GAO's identification of single-family mortgage insurance programs as a high-risk area, the President's Management Agenda has committed HUD to tackling long-standing management problems that expose FHA homebuyers to fraudulent practices. HUD is taking steps to reduce fraud and improve program controls. FHA is committed to combating predatory lending practices that encourage families to buy homes they cannot afford and cause homeowners to lose their homes by refinancing into loans with high interest rates.

Elderly and minority homeowners are particularly vulnerable to predatory lending practices, which include loan "flipping" (schemes in which lenders buy homes and quickly resell them at inflated prices to uninformed buyers), home improvement scams, unaffordable mortgage loans, and repeated refinancings with no borrower benefit.

Audits of single-family lenders and loan origination abuses continue to be a priority but a lesser priority than in recent years. OIG reduced its goal for single-family-related audits to 30 during 2006 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 Mortgage 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’s goal is 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.

OIG will continue to give priority to the Section 8 program during FY 2006. OIG plans to accomplish 30 audits of the Section 8 program at various housing authorities identified using a risk-based approach to designate the more significant candidates.

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 continues to pursue several major efforts to improve its management and performance by strengthening internal controls to eliminate material weaknesses and remove HUD programs from GAO’s high-risk list.

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 at least 11 reviews of various functions.

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. Further, we have increased audits of public housing agencies' administration of the Section 8 Housing Choice Voucher program based on congressional requests.

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			
FHA insurance requirements for late endorsement submissions (LA 06 0009): To determine whether loans submitted for late endorsements that have had a missed payment are at a higher risk for default than loans submitted late without a missed payment.	Los Angeles	Jan. 2006	Issued 2006-SE-0002
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 to protect the insurance fund.	Kansas City	Aug. 2006	May 2007
Single family real estate owned property sales (PH 06 0006): To determine whether investors are appropriately obtaining real estate-owned properties.	Philadelphia	Feb. 2006	Dec. 2006
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	April 2007
HUD's oversight of the real estate owned management and marketing contracts (PH 02 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 xxxx): To determine whether referrals for manual underwriting are in compliance with FHA underwriting requirements.	Kansas City	June 2007	
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	

Program areas/objectives	Lead region	Start date	Final report target date
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			
Use of Section 8 housing choice vouchers in tax credit projects (LA 05 0026): To determine whether housing agencies provide excess Section 8 housing choice voucher assistance to housing projects that are subject to maximum rents under the Internal Revenue Service Low-Income Housing Tax Credit program. To evaluate the necessity or reasonableness of allowing the use of housing choice vouchers in these tax credit projects.	Los Angeles	Sept. 2005	Issued 2007-LA-0001
Enterprise Income Verification System (KC 07 xxxx): 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 xxxx): To determine what HUD does to ensure Section 8 units meet HQS or enforce requirements when housing authorities do not comply.	Atlanta	Jan. 2007	
Multifamily Housing/FHA			
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	In survey

Program areas/objectives	Lead region	Start date	Final report target date
<p>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.</p>	Kansas City	July 2006	Mar. 2007
<p>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.</p>	Kansas City	Aug. 2006	Mar. 2007
<p>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.</p>	Boston	Dec. 2006	
Information Systems (IS) audits			
<p>HUD procurement systems (DP 06 0012): To assess functionality and controls for accurate, prompt, and secure processing of transactions.</p>	IS Audit	Jan. 2006	Mar. 2007
<p>IT contingency planning and preparedness (DP 06 0011): To evaluate the availability of HUD's systems, equipment, and services to perform mission-critical functions in a timely manner should a disaster occur. The scope of this audit is the IT component of HUD's contingency planning and preparedness. The audit meets a GAO Federal Information System Controls Audit Manual (FISCAM) and FISMA requirement for review of service continuity.</p>	IS Audit	Dec. 2005	Issued 2006-DP-0005
<p>Review of HUD firewall implementation (DP 06 0009): To determine whether HUD's firewall provides adequate controls to prevent abuse or unauthorized access to the agency's information resources.</p>	IS Audit	Jan. 2006	Issued 2007-DP-0001
<p>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.</p>	IS Audit	Jan. 2006	Dec. 2006

Program areas/objectives	Lead region	Start date	Final report target date
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.	IS Audit	Apr. 2006	Oct. 2006
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	Aug. 2006
Reorganization/other			
HUD’s emergency contract award process (AT 06 0005): To evaluate the process for awarding emergency disaster contracts.	Atlanta	Jan. 2006	Aug. 2006
HUD’s procurement process (AT 07 0001): To determine whether HUD complied with federal and its own procurement requirements when awarding contracts.	Atlanta	Dec. 2006	In survey
Evaluate HUD’s management of human resources (CH 06 00XX): 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. Of immediate concern is the overpayment of Section 8 housing assistance payments. This area is highlighted as part of goal #1 in HUD OIG strategic plan. 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 2006 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 2006. 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.

SIGNIFICANT ONGOING EXTERNAL 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

Auditee/objective	Region	Start date	Final report target date
Public and Indian Housing			
Boston Housing Authority (BO 06 0009): To determine whether the PHA is operating its Section 8 program in accordance with HUD requirements.	Boston	Jan. 2006	Aug. 2006
Utica Municipal Housing Authority (UMHA), Hope VI program (NY 06 0005): To determine whether UMHA is implementing its Hope VI program in accordance with applicable rules and regulations.	New York	Feb. 2006	Sept. 2006
Lubbock Housing Authority (FW 06 0015): To determine the effect and cause of loans and encumbrances incurred on behalf of its nonprofits.	Fort Worth	Mar. 2005	Oct. 2006
Single Family audits			
*Pine State Mortgage Corporation (AT 06 0001): To determine whether the lender originated FHA-insured loans in accordance with prudent lending practices and HUD requirements.	Atlanta	Oct. 2005	July 2006
*National City Mortgage (CH 05 0041): To determine whether (1) National City's quality control plan, as implemented, met HUD's requirements and (2) National City complied with HUD's regulations, procedures, and instructions in the underwriting of FHA-insured loans.	Chicago	Aug. 2005	June 2006
Community Planning and Development			
Lower Manhattan Development Corporation (LMDC) – CDBG Disaster Recovery Assistance funds – six months ending March 31, 2006 (NY 06 0007): To determine whether LMDC (1) disbursed funds to eligible grant applicants, (2) implemented adequate procedures for monitoring, (3) expended funds for eligible planning and administrative costs, and (4) has an adequate financial management system in place.	New York	Apr. 2006	Sept. 2006

Auditee/objective	Region	Start date	Final report target date
HUD's emergency response contract award process (AT 06 0005): To determine whether HUD (1) has adequate controls over its award process, (2) awards contracts in accordance with the Federal Acquisition Regulation and HUD requirements, and (3) ensures existing contracts are not modified to avoid competitively bidding new contracts.	Atlanta	Jan. 2006	Aug. 2006