



**AUDIT PLAN**  
**As of March 31, 2017**  
**OFFICE OF INSPECTOR GENERAL**  
**U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**

## *Overview*

The U.S. Department of Housing and Urban Development's (HUD) primary mission is to create strong, sustainable, inclusive communities and quality, affordable homes for all. HUD seeks to accomplish this mission through a wide variety of housing and community development grant, subsidy, and loan programs. Additionally, HUD assists families in obtaining housing by providing Federal Housing Administration (FHA) mortgage insurance for single-family and multifamily properties. HUD relies upon many partners for the performance and integrity of a large number of diverse programs. Among these partners are cities that manage HUD's Community Development Block Grant (CDBG) funds, public housing agencies (PHA) that manage assisted housing funds, HUD-approved lenders that originate and service FHA-insured loans, Government National Mortgage Association (Ginnie Mae) mortgage-backed security issuers that provide mortgage capital, and other Federal agencies with which HUD coordinates to accomplish its goals. HUD also has a substantial responsibility for administering disaster assistance programs and is administering new mortgage assistance and grant programs in response to the Nation's financial crisis.

We will be operating under a continuing resolution until April 2017. However, the President's fiscal year (FY) 2017 budget provides HUD \$48.9 billion in gross discretionary funding and \$11.3 billion in new mandatory spending over 10 years, to include more than \$38 billion in rental housing assistance to 4.5 million low-income families through the Housing Choice Voucher, project-based rental assistance, and public housing programs. This funding will provide \$20.9 billion for the Housing Choice Voucher program, \$10.8 billion for the project-based rental assistance program, and \$6.45 billion in operating and capital subsidies.

HUD had a \$49.3 billion budget for FY 2016. This amount included \$10.8 billion for Section 8 project-based rental assistance, \$21.1 billion for tenant-based rental assistance, \$950 million for the HOME Investment Partnerships Program (HOME), and \$3 billion for the CDBG program. The 2016 Consolidated Appropriations Act authorized HUD to expand the Moving to Work demonstration program by an additional 100 high-performing PHAs over a period of 7 years. HUD also allocated all of the \$15.2 billion in CDBG Disaster Recovery funding to respond to the effects of Hurricane Sandy in FY 2013, including the remaining \$1 billion allocated to the National Disaster Resilience Competition. Further, during FY 2017, Congress appropriated additional disaster funding through Public Law P.L. 114-223 and 114-254 CDBG Disaster Recovery, \$500 million and \$1.8 billion respectively, for Florida, Louisiana, North Carolina, South Carolina, Texas, and West Virginia.

HUD planned to respond aggressively to the housing crisis as well as contribute to broader national priorities on energy, sustainable growth, community revitalization, and poverty alleviation. This audit plan provides coverage of HUD's program areas and management and organizational reforms. It gives full consideration to the Office of Inspector General's (OIG) strategic plan and HUD's management challenges identified by OIG and reported to Congress annually.



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### *The HUD OIG, Office of Audit*

HUD OIG is one of the original 12 Offices of Inspector General established by the Inspector General Act of 1978. While part of HUD, OIG provides independent oversight of HUD's programs and operations.

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

The Office of Audit is responsible for conducting audits, civil fraud reviews, and investigations. This work identifies, assesses, and reports on HUD's activities and programs. The Office of Audit recommends corrective actions to HUD, as necessary, to prevent future program or operational problems. Auditors are assigned to headquarters and regional offices.

The Office of Audit conducts audits in accordance with Government Auditing Standards as defined by the Comptroller General. These audits include

1. Financial audits, which determine whether HUD's financial statements are fairly presented, internal controls are adequate, and laws and regulations have been followed.
2. Information system audits, which determine, among other things, the adequacy of general and application controls and whether the security of information resources is adequate and complies with system development requirements.
3. Performance audits, which determine whether programs are achieving the desired results or benefits in an efficient and effective manner.

The Office of Audit also conducts civil fraud reviews to identify fraud and make referrals for civil actions and administrative sanctions against entities and individuals that commit fraud against HUD. In addition, the Joint Civil Fraud Division (consisting of the Office of Audit and the Office of Investigation) provides case support to the U.S. Department of Justice, Civil Division; United States Attorney's Offices nationwide; and HUD's Office of General Counsel to investigate and pursue civil fraud and administrative cases.

### *The Audit Planning Process*

Audit planning is a continuing process to focus resources on areas of greatest benefit to the taxpayer and HUD. The Office of Audit's broad goal in developing an audit plan is to help HUD resolve its major management challenges while maximizing results and providing responsive audits.

The process is dynamic in order to address requests and other changes throughout the year. The Office of Audit identifies audits through discussions with program officials, the public, and Congress; conducting audits; and reviewing proposed legislation, regulations, and



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other HUD issuances. It also conducts audits that HUD and Congress request, as well as those identified from OIG's hotline.

### *Audit Environment at HUD*

HUD's primary mission is to create strong, sustainable, inclusive communities and quality, affordable homes for all. HUD does this through a variety of housing and community development programs and insured mortgages.

While HUD is a relatively small agency in terms of staff, it relies on a large number of entities to administer its diverse programs. Among HUD's administrators are hundreds of cities and directly funded grantees that manage HUD's CDBG funds, thousands of PHAs 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 more than \$1 trillion in long-term Federal financial commitments. HUD is actively involved in foreclosure mitigation, homeownership counseling, and a myriad of efforts to curb mortgage abuse.

HUD's public and Indian housing and community development programs impact the lives of millions of low-income households and the condition 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.

### *Audit Plan Objectives*

The audit plan has the following objectives:

- **promoting fiscal responsibility and financial accountability,**
- **strengthening the soundness of public and Indian housing,**
- **improving HUD's execution of and accountability for grant funds, and**
- **protecting the integrity of housing insurance and guarantee programs.**

### *Promoting Fiscal Responsibility and Financial Accountability*

HUD's program offices' and government corporations' programmatic and financial management focus is on

- housing subsidies for low- and moderate-income families,
- grants to States and communities for community development activities,
- direct loans and capital advances for the construction and rehabilitation of housing projects for the elderly and persons with disabilities,



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- promoting and enforcing fair housing and equal housing opportunity,
- insuring mortgages for single-family and multifamily dwellings,
- insuring loans for home improvements and manufactured homes, and
- facilitating financing for the purchase or refinancing of homes.

HUD accomplishes these missions through a decentralized structure of program offices and government corporations.

HUD OIG will conduct the annual financial statement audit, which includes all of HUD's components. In that audit, OIG tests HUD's compliance with accounting standards, financial management controls, financial systems, financial reporting, and financial laws and regulations. It also audits FHA and Ginnie Mae financial statements. In addition, OIG will conduct program audits of specific financial management functions to determine the effectiveness of HUD's implementation of program financial accountability requirements.

### *Strengthening the Soundness of Public and Indian Housing*

HUD provides housing assistance funds to PHAs under various grant and subsidy programs. These intermediaries, in turn, provide housing assistance to benefit primarily low-income households. HUD's strategic goals for promoting public and Indian housing efforts are to meet the needs for quality, affordable housing; use housing as a means to improve the quality of life for participants; and build inclusive, sustainable communities free from discrimination.

The Office of Public and Indian Housing (PIH) provides funding for rent subsidies through its public housing operating subsidies and tenant-based Section 8 rental assistance programs. These programs are administered by about 3,200 PHAs, which are to provide housing to low-income families or make assistance payments to private owners that lease their rental units to assisted families. In FY 2017, there are approximately 1.1 million public housing units occupied by tenants. These units are under the direct management of the PHAs.

The Moving to Work demonstration program gives PHAs the opportunity to design and test innovative, locally developed strategies that are designed to use Federal dollars more efficiently, help residents become self-sufficient, and increase housing choices for low-income families. The demonstration program gives PHAs exemptions from many public housing rules and more flexibility in how they use their Federal funds. There are currently 39 PHAs participating in the program, and under the 2016 MTW (Moving to Work) Expansion Statute, HUD is authorized to expand the program to an additional 100 PHAs over a period of 7 years. OIG has issued a report on the Moving to Work demonstration program, focusing on the need for HUD to develop criteria to evaluate the success of the program. OIG has also issued one report on lobbying expenses and one report on legal expenses at these agencies. OIG will continue to evaluate how well HUD monitors these PHAs.

The Rental Assistance Demonstration (RAD) program was developed to give PHAs a



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tool to preserve and improve public housing properties and address the \$26 billion nationwide backlog of deferred maintenance. RAD also gives owners of three HUD “legacy” programs (Rent Supplement, Rental Assistance Payment, and Section 8 Moderate Rehabilitation) the opportunity to enter into long-term contracts that facilitate the financing of improvements. Additionally, RAD allows PHAs to leverage public and private debt and equity in order to reinvest in the public housing stock. OIG has issued one report on RAD, focusing on HUD’s completing an adequate front-end risk assessment for RAD. OIG will continue to evaluate HUD’s administration of RAD.

### ***Improving HUD’s Execution of and Accountability for Grant Funds***

HUD awards grants to all levels of government and to the private sector for developing viable communities by promoting integrated approaches that provide decent housing, suitable living environments, and expanded economic opportunities for low- and moderate-income persons. OIG plans to focus on significant areas related to the lack of controls over and accountability for grant funds. In addition, OIG plans to review HUD’s oversight of subrecipients as well as HUD’s enforcement of returning unobligated or unspent funds.

### ***Protecting the Integrity of Housing Insurance and Guarantee Programs***

FHA is the Federal Government’s single largest program to extend home ownership to individuals and families who lack the savings, credit history, or income to qualify for a conventional mortgage. The FY 2016 independent actuary estimated that the FHA insurance fund’s value was positive \$35.27 billion, which represents an \$18.23 billion improvement from the positive \$17.04 billion economic value estimated in the FY 2015 review. In summary, the estimated FY 2016 economic value of the fund increased and is \$10.11 billion higher than estimated last year. The FY 2016 capital ratio is a positive 2.32 percent. At the end of October 2016, FHA had more than 7.8 million single-family mortgages in force with an amortized balance of more than \$1.1 trillion. OIG plans to continue its efforts in external and internal audits of HUD’s activities in the single-family mortgage industry.

Changes in the single-family mortgage industry and the meltdown of the subprime market require continual emphasis on single-family lenders by OIG. The economic slowdown increased demand for loss mitigation actions, including but not limited to loan modifications and other types of mortgage assistance. In February 2009, The U.S. Department of the Treasury launched the Making Home Affordable Program (MHA) to help struggling homeowners avoid foreclosure. The cornerstone of MHA is the Home Affordable Modification Program, which provides eligible homeowners the opportunity to reduce their monthly mortgage payments to more affordable levels. On June 26, 2014, the Obama Administration extended the application deadline for MHA programs to December 30, 2016. The deadline was determined in coordination with the Federal Housing Finance Agency to align with extended deadlines for the Home Affordable Refinance Program and the Streamlined Modification Initiative for homeowners with loans owned or guaranteed by the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation. Therefore, OIG plans to continue its efforts in external audits of servicers and internal audits of HUD’s activities in loan mitigation activities.



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Following the meaningful impact of its prior servicer reviews, OIG is working with various assistant U.S. attorneys in its reviews of the loan origination practices of large lenders to determine their compliance with FHA requirements. The Office of Audit is placing an emphasis on civil mortgage fraud and will actively seek out instances involving false claims deserving civil complaints to recover Federal funds.

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 Office of Program Enforcement, the Departmental Enforcement Center, and OIG's own Office of Investigation.

### *Significant Mandated Audits*

Congress has tasked OIG with legislated reporting. 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 once a year.

The Disaster Relief Appropriations Act of 2013 provided \$16 billion (\$15.18 billion after sequestration) in CDBG funds for necessary expenses related to disaster relief and long-term recovery for disasters that occurred in 2011, 2012, and 2013. Also, in December 2016, the HUD Secretary awarded an additional \$1.8 billion to help Louisiana, West Virginia, Texas, North Carolina, South Carolina, and Florida recover after severe flooding events that occurred earlier that year. OIG has oversight responsibilities for these CDBG funds and will perform disaster reviews as part of its annual audit plan. OIG has been proactive in the oversight of Hurricane Sandy funding. It has issued 34 reports and has 9 ongoing audits in the affected States.

In addition to the HUD-specific mandates issued by Congress, all OIGs must meet several governmentwide legislative mandates annually. The most significant requirement involves the audits of HUD's, FHA's, and Ginnie Mae's financial statements as required by the Chief Financial Officers Act. Additionally, we perform the following mandated audits.

The Information Systems Audit Division assists the Financial Audit Division in completing the annual audit of HUD's financial statements using the U.S. Government Accountability Office's Federal Information System Controls Audit Manual (FISCAM). Once the significant accounting applications are identified and the computer systems involved in those applications are determined, FISCAM is used as a guide to assess computer-related controls. Components of internal control include general and application controls. General controls are security management, access control, configuration management, segregation of duties, and contingency planning. Application controls are those controls over the completeness, accuracy, validity, confidentiality, and availability of transactions and data during application processing. The effectiveness of application-level controls depends on the effectiveness of entitywide and system-level general controls. Application-level controls are divided into the following four control categories: application-level security controls, business process controls, interface controls, and data management system controls. FISCAM is used to assess these controls. Information system security controls are also addressed in Office of Management and Budget



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(OMB) Circular A-130, Management of Federal Information Resources; National Institute of Standards and Technology computer security handbooks; and other publications.

The Improper Payments Information Act of 2002 (IPIA) required the head of each agency to annually review all programs and activities the agency administered, identify all such programs and activities that might be susceptible to significant improper payments, and report estimated improper payments for each program or activity identified as susceptible. For programs with estimated improper payments exceeding \$10 million, IPIA required agencies to report the causes of the improper payments, actions taken to correct the causes, and the results of the actions taken. The Improper Payments Elimination and Recovery Act of 2010 amended IPIA to decrease the frequency with which each agency was required to review all of its programs but increased Federal agencies' responsibilities and reporting requirements to eliminate and recover improper payments and required each agency inspector general to determine whether the agency complied with IPIA. OIG annually issues a report to document its findings.

The Charge Card Abuse Prevention Act of 2012 requires OIG to (1) conduct periodic assessments of the agency charge card programs; (2) identify and analyze the risk of illegal, improper, or erroneous purchases and payments; (3) perform analyses or audits as necessary; (4) report to the head of the executive agency concerns regarding the results of such analyses or audits; and (5) report to the Director of OMB on the implementation of recommendations made to the head of the executive agency. In accordance with the Charge Card Act, OIG and HUD submit a semiannual joint purchase and integrated card violation report to the Director of OMB that describes confirmed violations involving the misuse of charge cards and disciplinary actions taken.

The Federal Information Security Modernization Act of 2014 (FISMA) assigns responsibilities to various agencies to ensure the security of data in the Federal Government. FISMA requires agency program officials, chief information officers, and inspectors general to conduct annual reviews of the agency's information security program and report the results to OMB. OMB uses these data to assist in its oversight responsibilities and to prepare this annual report to Congress on agency compliance with the Act.

The Office of National Drug Control Policy's circular, Accounting of Drug Control Funding and Performance Summary of January 2013, and 21 U.S.C. (United States Code) 1704(d) direct inspectors general to report annually on their review of the drug-related obligations of their agency.

The Digital Accountability and Transparency Act of 2014 (DATA Act) aims to make information on Federal expenditures more easily accessible and transparent. The law requires the U.S. Department of the Treasury to establish common standards for financial data provided by all government agencies and expand the amount of data that agencies must provide to the government website, USASpending.gov. The goal of the law is to improve the ability of Americans to track and understand how the government is spending money. The inspector general of each Federal agency is directed to (1) review a statistically valid sampling of the spending data submitted under this Act by the Federal agency and (2) submit to Congress and





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make publicly available a report assessing the completeness, timeliness, quality, and accuracy of the data sampled and the implementation and use of data standards by the Federal agency. OIG's first report under the DATA Act is due 18 months after OMB and Treasury issue guidance for agencies on reporting.

The Grants Oversight and New Efficiency Act required OMB to instruct each agency to submit a report to Congress and the U.S. Department of Health and Human Services by December 31, 2016. The report lists each Federal grant award held and the challenges leading to delays in grant closeout. It also details why each of the 30 oldest Federal grant awards have not been closed out. Each agency, within 1 year after submitting its report, will report which awards have not been closed out. The inspector general of an agency with more than \$500 million in annual grant funding, within 1 year after such agency has provided the report, will conduct a risk assessment to determine whether an audit or review of the agency's grant closeout process is warranted.

The Cybersecurity Act of 2015, part of the Consolidated Appropriations Act, 2016, calls for each inspector general to submit a report dealing specifically with national security systems or Federal computer systems that provide access to personally identifiable information. The Act required that each report be submitted in September 2016 and include

- logical access policies and practices;
- logical access controls and multifactor authentication;
- inventories of software present (on systems containing personally identifiable information);
- capability to monitor and detect exfiltration and other threats, including
  - data loss prevention capabilities,
  - forensics and visibility capabilities, and
  - digital rights management capabilities; and
- policies and procedures to ensure that entities (for example, contractors) providing services to the agency are implementing the monitoring and detection capabilities described in the bullet above.



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### ONGOING AND PLANNED INTERNAL AUDITS

- \* *Audit contributes to promoting fiscal responsibility and financial accountability*
- \*\* *Audit contributes to strengthening the soundness of public and Indian housing*
- \*\*\* *Audit contributes to improving HUD’s execution of and accountability for grant funds*
- \*\*\*\* *Audit contributes to protecting the integrity of housing insurance and guarantee programs*
- (a) *Audit is a significant mandated audit*

Program areas and objectives	Lead region	Start date	Final report target date
<b>Single-family housing-FHA</b>			
**** <b>Oversight of HUD’s Distressed Asset Stabilization Program (KC-17-0001):</b> To determine whether HUD had adequate oversight of its Distressed Asset Stabilization Program.	Kansas City	October 2016	May 2017
**** <b>FHA safe water requirements – nationwide (PH-17-0002):</b> To determine whether HUD provided sufficient guidance and oversight to ensure that properties approved for mortgage insurance had a continuing and sufficient supply of safe and potable water.	Philadelphia	October 2016	July 2017
**** <b>Enforcement of voluntary single-family insurance termination requirements (KC-17-0002):</b> To determine whether FHA ensured that servicers complied with all of the requirements for voluntary termination of insurance coverage.	Kansas City	October 2016	May 2017
**** <b>HUD’s oversight of servicers’ use of loss mitigation options for single-family FHA-insured loans (LA-17-0012):</b> To determine whether HUD had adequate controls in place to ensure that servicers of single-family FHA-insured loans evaluated borrowers for loss mitigation.	Los Angeles	November 2016	May 2017
**** <b>Oversight of nonbanks servicing loans in Ginnie Mae pools (KC-17-0005):</b> To determine whether Ginnie Mae had the organizational structure and capacity to monitor and mitigate the risks posted by nonbanks.	Kansas City	November 2016	July 2017



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Program areas and objectives	Lead region	Start date	Final report target date
**** <b>Distressed Asset Stabilization Program sales to investors (KC-17-0010):</b> To determine whether HUD-ensured investors complied with all requirements outlined in the pooled sales contracts.	Kansas City	February 2017	August 2017
**** <b>FHA loans to delinquent Federal debtors:</b> To determine whether FHA was insuring loans made to individuals who owed delinquent debts to the Federal Government.	Kansas City	May 2017	December 2017
**** <b>HUD's oversight of FHA-insured loans with a Property Assessed Clean Energy loan:</b> To determine whether HUD had adequate controls to mitigate risks associated with insuring a Property Assessed Clean Energy loan.	Atlanta	August 2017	March 2018
**** <b>HUD's oversight of fees charged in connection with FHA loans:</b> To determine whether HUD had adequate oversight of fees charged to borrowers in connection with an FHA loan to ensure that they were allowable, reasonable, and necessary.	Los Angeles	August 2017	December 2017
**** <b>HUD's controls over the recovery of claims that were improperly paid:</b> To determine whether HUD had adequate controls in place to ensure that collections owed for loss mitigation claims were recovered when HUD determined the claims to be ineligible.	Los Angeles	September 2017	November 2017
**** <b>FHA preforeclosure claim debenture interest curtailment:</b> To determine whether HUD paid excessive debenture interest due to untimely lender preforeclosure actions.	Los Angeles	September 2017	December 2017
**** <b>HUD's oversight of its First Look Program:</b> To determine whether HUD had adequate controls over FHA's First Look Program to ensure compliance with Neighborhood Stabilization Program and asset disposition program requirements.	Chicago	October 2017	June 2018
**** <b>FHA Claims Without Conveyance of Title:</b> To determine whether FHA's Claims Without Conveyance of Title program revisions were beneficial to the FHA insurance fund.	New York	October 2017	June 2018
**** <b>FHA loans to tax debtors:</b> To determine whether FHA insured loans made to individuals who owed tax debts to the Internal Revenue Service.	Kansas City	November 2017	June 2018



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Program areas and objectives	Lead region	Start date	Final report target date
<b>Community planning and development</b>			
<p><b>*** HUD compliance with the interagency disaster recovery delivery sequence and its impact on the duplication of benefits (KC-16-0015):</b> To determine whether HUD’s Office of Community Planning and Development (CPD) complied with the departmental clearance process and associated Federal requirements when issuing its July 25, 2013, guidance on duplication of benefits.</p>	<b>Kansas City</b>	<b>April 2016</b>	<b>April 2017</b>
<p><b>*** HUD monitoring of the Section 108 Loan Guarantee program (AT-16-0012):</b> To determine whether HUD effectively monitored Section 108-funded activities to ensure that they met a national objective of the CDBG program and fully provided the intended benefits and that borrowers followed loan agreement provisions.</p>	<b>Atlanta</b>	<b>April 2016</b>	<b>April 2017</b>
<p><b>*** HUD’s monitoring of State CDBG grantees (FW-17-0010):</b> To determine whether HUD had adequate oversight of direct homeownership assistance activities under its CDBG program.</p>	<b>Fort Worth</b>	<b>October 2016</b>	<b>July 2017</b>
<p><b>*** HUD oversight of congressional grant obligations (LA-17-0011):</b> To determine whether HUD CPD’s Office of Policy Development and Coordination administered Economic Development Initiative Special Purpose and Neighborhood Initiative congressional grant obligations in accordance with HUD rules and requirements; specifically, whether grantees executed their funded projects in accordance with applicable agreements, rules, and requirements.</p>	<b>Los Angeles</b>	<b>November 2016</b>	<b>July 2017</b>
<p><b>*** HUD oversight of direct home-ownership assistance using CDBG funding (PH-17-0003):</b> To determine whether HUD had adequate oversight of funding for direct home-ownership assistance activities under its CDBG program.</p>	<b>Philadelphia</b>	<b>November 2016</b>	<b>August 2017</b>
<p><b>*** Rollup on CDBG Disaster Recovery procurement issues (PH-17-0004):</b> To determine whether HUD provided sufficient guidance and oversight to ensure that disaster grantees followed proficient procurement processes when purchasing goods and services.</p>	<b>Philadelphia</b>	<b>December 2016</b>	<b>May 2017</b>



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Program areas and objectives	Lead region	Start date	Final report target date
<p><b>*** HUD oversight of the disposition of real properties previously assisted with CDBG funds (NY-17-0008):</b> To determine whether HUD had adequate regulations and controls to ensure that CDBG recipients imposed liens or other deed restrictions so that HUD’s interest in assisted properties would be protected and that CDBG program income generated from the disposition of assisted properties was reported in the Integrated Disbursement Information System and used for eligible CDBG activities.</p>	New York	February 2017	October 2017
<p><b>*** Council of Inspectors General on Integrity and Efficiency (CIGIE) joint review of disaster assistance delivery:</b> To determine whether the Stafford Act provided a universally understood, orderly, and continuing means of assistance by achieving greater coordination and responsiveness of disaster relief programs.</p>	Kansas City	May 2017	January 2018
<p><b>*** CPD’s CDBG Disaster Recovery funding requirements:</b> To determine whether HUD should formalize its CDBG Disaster Recovery funding as a program in the Code of Federal Regulations.</p>	Fort Worth	May 2017	January 2018
<p><b>*** HUD’s monitoring of compliance with expenditure deadlines for Sandy and other eligible disaster grantees:</b> To determine whether HUD was monitoring and ensuring that grantees met the 24-month expenditure deadline for grantees that received multiple Disaster Relief Appropriation Act, 2013, grants, by ensuring that funds were used as required and properly budgeted and that unused or expired funds were returned.</p>	Fort Worth	May 2017	January 2018
<p><b>*** Development of a national HUD disaster recovery information system:</b> To determine whether CPD should maintain its own “Disaster Recovery Information Technology System.”</p>	New York	May 2017	January 2018
<p><b>*** Review of HOME funds status:</b> To determine whether HUD properly (1) determined the status of inactive projects and (2) completed the project.</p>	Atlanta	May 2017	March 2018
<p><b>*** CPD’s monitoring of its grantees:</b> To determine whether CPD was monitoring its grantees for entitlement CDBG, HOME, Homeless Assistance Grants, Emergency Solutions Grants (ESG), and Housing Opportunities for Persons with AIDS in accordance with requirements.</p>	Fort Worth	July 2017	March 2018



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Program areas and objectives	Lead region	Start date	Final report target date
<p><b>*** HUD's oversight of the use of CDBG funds for Section 108 loan repayments:</b> To determine whether HUD was effectively monitoring the use of CDBG funds on the repayment of Section 108 loans and the feasibility of not enacting a threshold or maximum amount of CDBG funds that can be used to repay Section 108 loans.</p>	Atlanta	August 2017	May 2018
<p><b>*** HUD's oversight of the recapture and reallocation of unobligated or unexpended ESG funds:</b> To determine whether HUD was effectively recapturing and reallocating unobligated or unexpended ESG funds.</p>	Atlanta	August 2017	May 2018
<b>Public and Indian housing</b>			
<p><b>** PIH's controls over required conversions of distressed housing projects (NY-16-0005):</b> To determine whether HUD (1) adequately administered the conversion program and facilitated compliance by identifying distressed unit clusters that its PHAs could recognize, (2) provided assistance to its PHAs that were having difficulty determining what distressed units were identified in the required conversion candidates reports that were issued by its Special Applications Center and preparing a conversion plan in response to identified clusters, and (3) replaced the requirements of the conversion program with another program.</p>	New York	February 2016	March 2017
<p><b>** HUD oversight of the Family Self-Sufficiency program (PH-17-0005):</b> To determine whether HUD needs to update its policies and regulations to increase the success rate of its Family Self-Sufficiency program.</p>	Philadelphia	December 2016	August 2017
<p><b>** HUD's oversight of lead-based paint prevention in public housing:</b> To determine whether HUD had adequate oversight of lead-based paint reporting and remediation in public housing.</p>	Chicago	March 2017	July 2017
<p><b>** Flat rent requirement compliance:</b> To determine whether PHAs complied with HUD's flat rent requirements.</p>	Kansas City	April 2017	September 2017
<p><b>** HUD's calculation of the asset repositioning fee:</b> To determine whether HUD had adequate controls to provide assurance that asset repositioning fees were accurately calculated.</p>	New York	May 2017	January 2018



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Program areas and objectives	Lead region	Start date	Final report target date
<b>** Registered sex offenders in Section 8 and public housing:</b> To determine whether HUD subsidized housing occupied by registered sex offenders.	<b>Kansas City</b>	<b>August 2017</b>	<b>April 2018</b>
<b>** HUD Real Estate Assessment Center housing quality standards inspection processes and procedures:</b> To determine whether HUD’s Real Estate Assessment Center (REAC) had adequate processes and controls to ensure that public housing projects met housing quality standards, including processes for hiring and monitoring inspectors and contractors, such as performing followup on deficiencies identified by REAC inspections or other sources.	<b>Fort Worth</b>	<b>October 2017</b>	<b>May 2018</b>
<b>*** HUD’s procedures to track Indian Housing Block Grant investments to ensure that grantees do not hold funds past the 5-year investment period:</b> To examine grantees authorized to invest Indian Housing Block Grant (IHBG) funds and determine whether they held funds beyond the 5-year investment period to ensure compliance with the requirements for IHBG investments.	<b>Kansas City</b>	<b>October 2017</b>	<b>March 2018</b>
<b>*** CIGIE crosscutting joint initiative to assess rural housing programs:</b> To determine the mission and purpose of “rural housing” programs, identify the number of entities receiving funding from both HUD and the U.S. Department of Agriculture, and determine whether the agencies monitored these rural housing agencies.	<b>Fort Worth</b>	<b>November 2017</b>	<b>June 2018</b>
<b>** PHAs expensing of employee benefits:</b> To determine: (1) whether HUD had issued adequate criteria for expensing and determining the adequacy of employee benefits at PHAs and (2) the actuarial pension liability at PHAs on a national scale.	<b>Boston</b>	<b>December 2017</b>	<b>September 2018</b>
<b>Multifamily housing-FHA</b>			
<b>**** Cooperatives charging higher rents for assisted units (KC-17-0009):</b> To determine whether the Office of Multifamily Housing Programs ensured that cooperative projects were not charging more for their HUD-assisted units than their nonassisted units.	<b>Kansas City</b>	<b>February 2017</b>	<b>July 2017</b>



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Program areas and objectives	Lead region	Start date	Final report target date
<p><b>**** HUD asset management monitoring of Section 232 nursing homes with identity-of-interest management agents and evaluation of the physical conditions of nursing homes:</b> To (1) evaluate HUD’s monitoring of underperforming nursing homes and identify actions taken to monitor nursing homes with identity-of-interest management agents to reduce the possibility of equity skimming and (2) determine whether the Office of Residential Care Facilities had proper information to adequately evaluate the physical condition of its nursing homes.</p>	<b>Boston</b>	<b>April 2017</b>	<b>December 2017</b>
<b>Information systems (IS) audits</b>			
<p><b>* Review of the New Core Financial Management Solution (DP- 17- 0001):</b> To determine whether adequate internal controls were in place for functionality of the New Core Financial Management Solution; specifically, to determine whether effective business process and interface processing controls were in place for the New Core Financial Management Solution.</p>	<b>IS Audit</b>	<b>December 2016</b>	<b>November 2017</b>
<p><b>* FY 2017 FISCAM review in support of the annual consolidated financial statement audit (DP-17-0003):</b> To assess controls over HUD’s computing environment as part of the internal control assessments required for the FY 2017 consolidated financial statement audit under the Chief Financial Officer’s Act of 1990.</p>	<b>IS Audit</b>	<b>February 2017</b>	<b>November 2017</b>
<p><b>* Audit of information system controls over Ginnie Mae (DP-17-0002):</b> To evaluate the effectiveness of general and application controls over selected information systems in HUD’s computing environment for compliance with HUD information technology policies and Federal information system security and financial management requirements.</p>	<b>IS Audit</b>	<b>February 2017</b>	<b>November 2017</b>
<p><b>* Review of information system controls over FHA (DP-17-0006):</b> To review the effectiveness of general and application controls over the selected information system(s) in HUD’s computing environment for compliance with HUD information technology policies and Federal information system security and financial management requirements.</p>	<b>IS Audit</b>	<b>March 2017</b>	<b>November 2017</b>





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Program areas and objectives	Lead region	Start date	Final report target date
<p><b>* Review of Office of the Chief Financial Officer financial management system functionality:</b> To evaluate the effectiveness of general and application controls over selected information system processes in HUD's computing environment for compliance with HUD information technology policies and Federal information system security and financial management requirements.</p>	<b>IS Audit</b>	<b>April 2017</b>	<b>November 2017</b>
<b>Administrative-other</b>			
<p><b>* Review of HUD's debt collections process (LA-17-0014):</b> To determine whether HUD followed its requirements for managing and collecting debts.</p>	<b>Los Angeles</b>	<b>December 2016</b>	<b>July 2017</b>
<p><b>(a) FY 2016 Improper Payments Elimination and Recovery Act audit (FO-17-0302):</b> To (1) determine HUD's compliance with reporting and improper payment reduction requirements; (2) evaluate the accuracy and completeness of the its reporting of improper payment data, including the agency's performance in reducing and recapturing improper payments; and (3) evaluate the agency's assessment of the level of risk associated with the high-priority programs and the quality of the improper payment estimates and methodology.</p>	<b>Financial Audit</b>	<b>December 2016</b>	<b>May 2017</b>
<p><b>(a) FY 2017 National Drug Control Program reporting (FO-17-0303):</b> To review HUD's submission of the detailed accounting of all funds spent during FY 2016 for the National Drug Control Program.</p>	<b>Financial Audit</b>	<b>December 2016</b>	<b>April 2017</b>
<p><b>* 2016 charge card audit (KC-17-0007):</b> To determine whether HUD travel and purchase cards were used for potentially illegal, improper, or erroneous purchases.</p>	<b>Kansas City</b>	<b>January 2017</b>	<b>September 2017</b>
<p><b>(a) FY 2017 consolidated financial statement audit (FO-17-0001):</b> To perform the annual consolidated financial statement audit as required by the Chief Financial Officers Act as amended.</p>	<b>Financial Audit</b>	<b>February 2017</b>	<b>November 2017</b>
<p><b>(a) FY 2017 FHA financial statement audit (FO-17-0100):</b> To express an opinion on FHA's FY 2017 financial statements.</p>	<b>Financial Audit</b>	<b>February 2017</b>	<b>November 2017</b>
<p><b>(a) FY 2017 Ginnie Mae financial statement audit (FO-17-0200):</b> To express an opinion on Ginnie Mae's principal financial statements.</p>	<b>Financial Audit</b>	<b>February 2017</b>	<b>November 2017</b>



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<b>Program areas and objectives</b>	<b>Lead region</b>	<b>Start date</b>	<b>Final report target date</b>
<b>* 2017 HUD purchase card CIGIE audit (KC-17-0011):</b> To determine whether HUD purchase cards were used for potentially illegal, improper, or erroneous purchases.	<b>Kansas City</b>	<b>March 2017</b>	<b>October 2017</b>
<b>(a) FY 2017 charge card risk assessment:</b> To complete the required annual risk assessment of HUD's charge cards	<b>Kansas City</b>	<b>August 2017</b>	<b>December 2017</b>
<b>The Fair Housing Organizations Initiative, a subset of the Fair Housing Initiatives Program:</b> To determine whether the Fair Housing Organizations Initiative was building capacity as intended.	<b>Boston</b>	<b>September 2017</b>	<b>May 2018</b>



# AUDIT PLAN

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## EXTERNAL AUDITS

Planning for external audits is subject to a number of factors, such as complaints, requests from HUD and congressional staff, and media attention, none of which can be predicted. The planning of external audits, therefore, is intended to be flexible to enable OIG to perform the highest priority work at 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's stakeholders, particularly Congress. 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 on the following areas.

**Single-family lenders:** Single-family lender origination and servicing reviews continue to be a priority for FY 2017 due to the abuses being experienced in single-family programs. A specialized audit program has been developed to target lenders, considering a number of high-risk indicators. In addition to its being a goal in HUD OIG's strategic plan, there continues to be congressional interest in OIG's audits of single-family programs. In addition, OIG plans to perform audits of mortgage companies' underwriting procedures and servicers performing loss mitigation actions.

**Community planning and development:** In an effort to continue its emphasis on improving efficiency and effectiveness, OIG continues to emphasize this program area. Congress has taken an interest in improving the efficiency of the HOME program. HUD OIG has longstanding concerns regarding the financial management controls over community planning and development formula grant programs and will continue to perform audits of HOME grantees and HUD's monitoring of the grantees as well as oversight of CDBG Disaster Recovery funds.

OIG's external audit work regarding grantees commonly finds a lack of adequate controls, including issues with subgrantee activities, resale and recapture provisions to enforce HUD's affordability requirements, incorrect reporting of program accomplishments, inadequate supporting documentation, and ineligible expenses. There is also a repetitive thread of not always meeting the objectives of the program to provide affordable housing or not always meeting local building code requirements. Our audits have found that in some instances, little or no monitoring occurred, particularly at the subgrantee level. HUD focuses its monitoring activities at the grantee level through its field offices. Grantees, in turn, are responsible for monitoring their subgrantees. OIG has concerns regarding the capacity of subgrantees receiving funding from HUD programs, including grantees receiving CDBG Disaster Recovery funds. Therefore, audits of grantees and their subgrantee activities will continue to be given emphasis this fiscal year.

OIG has issued 16 CDBG Disaster Recovery audits, which found that HUD did not provide sufficient guidance and oversight to ensure that disaster grantees followed proficient procurement processes when purchasing goods and services. Of major concern is that HUD has not followed an agreement with OIG that State disaster recovery grant recipients must follow the



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procurement standards at 24 CFR 85.36 (now 2 CFR 200.318 through 326). Initially, HUD gave grantees the option of adopting the Federal procurement standards or using the State's procurement standards if the State certified that its standards were equivalent to the Federal standards. HUD now requires grantees to document only that the State's procurement process provides for full and open competition and not that it meets all Federal procurement requirements. On January 10, 2017, HUD's Deputy Secretary issued a memorandum stating that a State grantee that followed its procurement policy was not required to follow the Federal requirements. OIG disagrees with this decision and will continue to perform audits in this area.

In February 2016, OIG and HUD CPD began a joint collaboration to assist grantees and subgrantees in the areas in which OIG audit reports determined that the grantees and subgrantees were most vulnerable. The work group determined that assistance should be provided in the following areas:

- procurement and contracting,
- subrecipient oversight,
- conflicts of interest,
- internal controls,
- documentation and reporting, and
- financial management.

The work group began meeting to develop a series of "integrity bulletins" aimed at providing grantees and subgrantees with information to help safeguard program funds and ensure that communities get the full benefit of awarded funding. The final bulletin on financial management was sent to grantees in January 2017, and the group continues to work on developing more bulletins.

**Public and Indian housing:** The low-income program serves approximately 1.1 million households. The Section 8 Housing Choice Voucher program serves approximately 2.2 million households. As part of an overall OIG initiative, tenant eligibility and accuracy of rental assistance payments will remain an area of audit focus. The quality of housing and the cost of administering these programs are other areas of emphasis that will be addressed as resources permit. OIG will take a close look at various PHAs to ensure that they sufficiently administer HUD's programs in accordance with regulations and guidance.

OIG will also focus on the administration of RAD. OIG currently has two assignments open regarding RAD. These reviews will determine whether the PHAs administered RAD conversion in accordance with HUD's requirements. Specifically, OIG will determine whether the PHAs (1) executed appropriate written agreements, (2) ensured that project financing sources were secured, (3) spent HUD funding for eligible and reasonable purposes, (4) followed occupancy requirements, (5) properly calculated contract rents, and (6) obtained a physical conditions assessment.

**Multifamily and insured healthcare project audits:** During fiscal year 2016, the Office of Multifamily Housing Programs had revised its Multifamily Accelerated Processing (MAP) Guide to speed processing and ensure consistent application of program requirements and



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credit standards. Currently, 95 lenders are approved to process loans under MAP, with oversight by FHA's Multifamily Asset Counterparty Oversight Division.

The Office of Multifamily Housing Programs had completed its implementation of the Multifamily for Tomorrow (MFT) initiative in headquarters and in all five regions as of August 2016. The initiative was developed to modernize and improve its business model for partners and stakeholders, while cultivating an exceptional environment for employees and realizing cost savings. MFT was to increase efficiencies and minimize risk, provide employees with new tools, and promote employee engagement. OIG has not reviewed the MFT initiative; however, it will continue to focus on multifamily programs to ensure that HUD limits its risk. It will also continue to focus on the misuse of project operating funds, also known as equity skimming.

Continuous improvement and risk management remain at the forefront of the Office of Healthcare Programs' (OHP) efforts. Two new industry standard risk management tools were implemented for its hospitals portfolio to better assess initial risk and monitor ongoing risk for the facilities that it insures. OHP also continued to work on streamlining, updating, and reforming its documentation across all programs. In conjunction with the Office of General Counsel, OHP completed the revision and processing of the documents required for administration of the Section 242 Hospital Mortgage Insurance Program. As of September 30, 2016, FHA had 107 active hospital loans with unpaid principal balances totaling \$7.5 billion.

At the end of fiscal year 2016, the Section 232 portfolio had 3,309 loans with an unpaid principal balance of \$25.1 billion. OHP is updating the Section 232 Program Handbook in an effort to help ensure consistency throughout the program. OIG will continue to evaluate lenders and focus on owners and operators of healthcare programs.