



**AUDIT PLAN**  
**As of September 30, 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 assistance and grant programs in response to numerous disasters.

OIG will continue to operate under a continuing resolution going into fiscal year (FY) 2018. The President's 2018 Budget requests \$40.7 billion in gross discretionary funding for HUD, a \$6.2 billion, or 13.2 percent, decrease from the 2017 annualized continuing resolution (CR) level. The budget

- provides more than \$35 billion for HUD's rental assistance programs and proposes reforms that reduce costs while continuing to assist 4.5 million low-income households;
- eliminates funding for the Community Development Block Grant program, a savings of \$3 billion from the 2017 annualized CR level;
- eliminates funding for a number of lower priority programs, including the HOME Investment Partnerships Program, Choice Neighborhoods, and the Self-help Homeownership Opportunity Program;
- promotes healthy and lead-safe homes by providing \$130 million, an increase of \$20 million over the 2017 annualized CR level, for the mitigation of lead-based paint and other hazards in low-income homes, especially those in which children reside; and
- eliminates funding for Section 4 Capacity Building for Community Development and Affordable Housing.

HUD is focused on helping Americans to secure and maintain quality, affordable housing; ending homelessness; making our communities more resilient from natural disasters; and protecting people from discrimination. HUD's work is critical to strengthening communities, bolstering the economy, and improving the quality of life of the American people. 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 potential 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's and Ginnie Mae's 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 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 3,900 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 were 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, which HUD anticipates being published in early 2018, 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.



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

The Lead Safe Housing Rule (LSHR) regulates the evaluation and control of lead-based paint hazards in most federally assisted housing built before 1978. The specific requirements vary with the type and amount of Federal housing assistance. LSHR contains special requirements for units occupied by children under age 6. Under the rule, “lead poisoned” children are children age 6 or under who have environmental intervention blood lead levels. When a child is lead poisoned, the owner and PHA have specific requirements to meet to ensure that all lead-based paint hazards have been evaluated and controlled and that the unit is safe for continued occupancy. OIG is performing an audit on lead-based paint in public housing. This audit will determine whether HUD has adequate oversight of lead-based paint reporting and remediation in its public housing and Housing Choice Voucher programs.

### ***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.

### ***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 April 2017, FHA had more than 7.9 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



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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.

When loss mitigation remedies are exhausted and homeowners are unable to keep their homes, FHA has to manage the losses and dispose of the insured properties. One way of doing this is through the sale of distressed notes. One specific note sales program is FHA's Distressed Asset Stabilization program in which FHA accepts assignment of eligible defaulted single-family loans in exchange for claim payment and then sells the loans in a variety of pooled note sales. The Office of Audit has completed one audit of this program, with a second audit ongoing and a third audit planned. OIG will continue to review the way FHA disposes of its inventory of defaulted loans to ensure that rules are established and followed, borrowers receive all eligible loss mitigation workouts, and losses to the fund are minimized.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 provided many mortgage reforms. As a result, a number of U.S. banks responded by slowly withdrawing their participation in the mortgage market due to the heightened regulatory environment. Nonbanks have stepped in to fill the lending gap and grab market share. OIG is following nonbanks closely due to their different set of oversight and liquidity requirements. OIG issued a report on Ginnie Mae's oversight of nonbanks in September 2017. Following the meaningful impact of its prior loan originator and servicer reviews, OIG continues to work with various assistant U.S. attorneys in its reviews of the loan origination practices of 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



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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 \$2.6 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 42 reports and has 5 ongoing audits in the affected States. During the summer of 2017, Hurricanes Harvey, Irma, and Maria caused massive devastation to Texas, Louisiana, Florida, Puerto Rico, and the Virgin Islands. Given the enormity of damages to the infrastructure, land, and housing and the extensive reconstruction and recovery efforts that will be needed, OIG's oversight of HUD's disaster assistance programs is expected to significantly increase over the next several years.

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, OIG performs 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 (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



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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 its 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 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 has 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



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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 of 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>FHA loans to delinquent Federal debtors (KC-17-0014):</b> To determine whether FHA insured loans to borrowers with delinquent Federal debt or subject to Federal administrative offset.	Kansas City	June 2017	January 2018
**** <b>HUD's controls over payment and tracking of claims:</b> To determine whether HUD had adequate controls in place to prevent improper claims from being paid and ensure that partial claim notes were properly tracked for future collection.	Los Angeles	September 2017	May 2018
**** <b>FHA preforeclosure claim debenture interest curtailment:</b> To determine whether HUD paid excessive debenture interest due to untimely lender preforeclosure actions.	Los Angeles	October 2017	June 2018
**** <b>Review of HUD's Distressed Asset Stabilization Program note sale transactional analysis:</b> To determine whether HUD properly and fairly marketed the pooled notes in its single-family note sales.	Kansas City	October 2017	March 2018
**** <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



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Program areas and objectives	Lead region	Start date	Final report target date
**** <b>Corrective action verification-adequacy of controls over sales price variances on preforeclosure sales:</b> To determine whether sales price variances on preforeclosure sales were submitted for HUD approval when required.	Los Angeles	October 2017	June 2018
**** <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	November 2017	June 2018
**** <b>HUD's Servicing of home equity conversion mortgage loans:</b> To determine whether HUD adequately ensured that its single-family servicing contractor, Novad Management Consulting, serviced home equity conversion mortgage loans in accordance with HUD's requirements.	Atlanta	November 2017	June 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	November 2017	June 2018
**** <b>HUD oversight of the Housing Counseling Program:</b> To determine whether HUD's oversight of its Housing Counseling Program's approval, termination-withdrawal, and posttermination-postwithdrawal processes provided assurance that stated program objectives were being met.	New York	November 2017	April 2018
**** <b>Recovery of partial claims from nonconveyance foreclosures and third-party sales:</b> To determine whether FHA identified and collected excess profits on third-party sales of properties with associated partial claims.	Kansas City	December 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	December 2017	June 2018
**** <b>FHA Claims Without Conveyance of Title program:</b> To determine whether FHA's Claims Without Conveyance of Title program revisions were beneficial to the FHA insurance fund.	New York	December 2017	July 2018



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Program areas and objectives	Lead region	Start date	Final report target date
<p><b>**** Review of the Loan Review System:</b> To determine whether FHA’s implementation of the Loan Review System was meeting its goal of managing loan review results across multiple divisions, replacing functions previously completed in other systems, and implementing the defect taxonomy.</p>	New York	June 2018	January 2019
<b>Community planning and development</b>			
<p><b>*** CDBG Disaster Recovery funding requirements (FW-17-0017):</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 (FW-17-0015):</b> To ensure that Disaster Relief Appropriation Act of 2013 grantees complied with the 24-month statutory expenditure requirement.</p>	Fort Worth	May 2017	January 2018
<p><b>*** The Office of Community Planning and Development’s risk assessment monitoring of its grantees (FW-17-0020):</b> To determine whether the Office of Community Planning and Development (CPD) appropriately assessed its entitlement and nonentitlement grantees’ risk to the integrity of CPD programs and adequately monitored its grantees.</p>	Fort Worth	July 2017	March 2018
<p><b>*** HUD’s oversight of the use of CDBG funds for Section 108 loan repayments (AT-17-0020):</b> To determine whether HUD effectively monitored 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 could be used to repay Section 108 loans.</p>	Atlanta	August 2017	May 2018
<p><b>*** The Council of the Inspectors General on Integrity and Efficiency’s 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	October 2017	June 2018



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Program areas and objectives	Lead region	Start date	Final report target date
<p><b>*** HUD’s oversight of its Community Compass Technical Assistance and Capacity Building program:</b> To determine whether HUD’s oversight of its Community Compass Technical Assistance and Capacity Building program was adequate to ensure that it complied with applicable requirements.</p>	Philadelphia	October 2017	June 2018
<p><b>*** HUD’s oversight of Place-Based Initiatives and resource management:</b> To determine whether HUD (1) had adequate controls to ensure effective monitoring, (2) ensured program effectiveness and appropriate use of its resources, and (3) complied with requirements regarding its Place-Based Initiatives programs.</p>	Fort Worth	February 2018	October 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	April 2018	November 2018
<p><b>*** HUD’s Oversight of inactive HOME-funded activities:</b> To determine whether HUD properly monitored the status of inactive HOME-funded projects.</p>	Atlanta	April 2018	November 2018
<p><b>*** CDBG code enforcement internal controls and grantee guidance:</b> To determine whether HUD followed its internal controls for developing guidance concerning code enforcement and the guidance was adequate to ensure that the grantees met the intent of the program.</p>	Los Angeles	May 2018	January 2019
<b>Public and Indian housing</b>			
<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	December 2017
<p><b>** HUD’s oversight of lead-based paint prevention in public housing (CH-17-0015):</b> To determine whether HUD had adequate oversight of lead-based paint reporting and remediation in public housing.</p>	Chicago	April 2017	January 2018
<p><b>** Indian Housing Block Grant funding allocation:</b> To determine whether HUD’s Office of Native American Programs (ONAP) ensured that registered Native American tribes or tribally designated housing entities submitted tribal enrollment numbers used for funding purposes that were accurate and complete.</p>	Los Angeles	September 2017	May 2018



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Program areas and objectives	Lead region	Start date	Final report target date
<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	October 2017	April 2018
<p><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.</p>	Fort Worth	October 2017	May 2018
<p><b>*** The Council of the Inspectors General on Integrity and Efficiency’s 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.</p>	Fort Worth	January 2018	August 2018
<p><b>*** Timeliness of investments, obligations, and expenditures of Indian Housing Block Grants:</b> To determine whether HUD ONAP ensured that grantees invested, obligated, and spent Indian Housing Block Grant program funds within HUD-required time limits.</p>	Los Angeles	February 2018	October 2018
<p><b>** Registered sex offenders in Section 8 and public housing:</b> To determine whether HUD subsidized housing occupied by registered sex offenders.</p>	Kansas City	February 2018	September 2018
<p><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.</p>	Boston	March 2018	December 2018



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Program areas and objectives	Lead region	Start date	Final report target date
<b>Multifamily housing-FHA</b>			
<p><b>****HUD’s oversight of grants funded through its resident home-ownership program under the Low-Income Housing Preservation and Resident Homeownership Act of 1990 (CH-17-0016):</b> To determine whether the HUD Office of Multifamily Housing Programs had adequate oversight of grants funded through its resident home-ownership program under the Low-Income Housing Preservation and Resident Homeownership Act of 1990 to ensure that projects were operated in accordance with HUD’s requirements and the grant agreements for the projects.</p>	<b>Chicago</b>	<b>April 2017</b>	<b>October 2017</b>
<p><b>**** HUD’s Monitoring of the financial performance of Section 232 nursing homes (BO-17-0005):</b> To evaluate HUD’s monitoring actions taken for financially underperforming nursing homes; specifically, to evaluate financial indicators, such as low utilization, delinquent payments, late payments, unprofitability, and financial solvency, and determine what monitoring and actions HUD had taken to protect its investment.</p>	<b>Boston</b>	<b>May 2017</b>	<b>March 2018</b>
<p><b>**** Multifamily tenants bypassing waiting lists (KC-17-0017):</b> To determine whether HUD had adequate controls in place to prevent multifamily tenants from improperly bypassing waiting lists.</p>	<b>Kansas City</b>	<b>September 2017</b>	<b>March 2018</b>
<p><b>****Delays in submitting claims on Section 232 loans:</b> To determine the impact of lenders’ not submitting claims on delinquent loans.</p>	<b>Chicago</b>	<b>October 2017</b>	<b>June 2018</b>
<p><b>****HUD’s approval of Section 232 loan originations:</b> To determine whether HUD insured loans for projects that did not qualify for mortgage insurance.</p>	<b>Philadelphia</b>	<b>November 2017</b>	<b>July 2018</b>
<p><b>**** HUD’s oversight of its project-based Section 8 program:</b> To determine whether HUD had adequate controls over the management activities of its project-based Section 8 program contract administrators in Region 6; specifically, whether HUD had effective controls over its administrators’ processes for verification and payment of housing assistance payment subsidies.</p>	<b>Fort Worth</b>	<b>March 2018</b>	<b>November 2018</b>



## AUDIT PLAN

Program areas and objectives	Lead region	Start date	Final report target date
<b>Information systems (IS) audits</b>			
<p><b>* FY 2017 FISCAM review in support of the annual consolidated financial statement audit (DP-17-0003):</b> To assess general controls over HUD’s computing environment for compliance with HUD information technology policies and Federal information system security and financial management requirements 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>January 2017</b>	<b>November 2017</b>
<p><b>* Audit of information system controls over Ginnie Mae (DP-17-0002):</b> To evaluate general and application controls for Ginnie Mae systems’ compliance with HUD information technology policies and Federal information system security and financial management requirements; specifically, to assess the effectiveness of general and application controls over selected information systems in HUD’s computing environment.</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>
<p><b>* Review of Office of the Chief Financial Officer financial management system functionality (DP-17-0007):</b> To evaluate the effectiveness of application controls over selected information systems owned or controlled by the Office of the Chief Financial Officer for compliance with HUD information technology policies, Federal information system security, and financial management requirements.</p>	<b>IS Audit</b>	<b>May 2017</b>	<b>November 2017</b>
<b>Administrative-other</b>			
<p><b>(a) FY 2017 consolidated financial statement audit (FO-17-0002):</b> To opine on HUD’s FY 2017 consolidated financial statements.</p>	<b>Financial Audit</b>	<b>February 2017</b>	<b>November 2017</b>



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Program areas and objectives	Lead region	Start date	Final report target date
<b>(a) FY 2017 FHA financial statement audit (FO-17-0100):</b> To express an opinion on FHA’s FY 2017 financial statements.	<b>Financial Audit</b>	<b>February 2017</b>	<b>November 2017</b>
<b>(a) FY 2017 Ginnie Mae financial statement audit (FO-17-0200):</b> To express an opinion on Ginnie Mae’s principal financial statements.	<b>Financial Audit</b>	<b>February 2017</b>	<b>November 2017</b>
<b>(a) DATA Act compliance audit (FO-17-0304):</b> To assess HUD’s compliance with the DATA Act for the second quarter of fiscal year 2017.	<b>Financial Audit</b>	<b>April 2017</b>	<b>November 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>* Recovery of unclaimed funds due to HUD:</b> To determine whether HUD identified and collected funds due to it as identified on States’ unclaimed fund websites.	<b>Kansas City</b>	<b>November 2017</b>	<b>April 2018</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>June 2018</b>	<b>January 2019</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 2018 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. OIG believes that efficient use of HOME funding includes requiring participating jurisdictions to commit HOME funds within 24 months of receiving the funds. The FY 2017 Consolidated Appropriations Act (Public Law 115-31) suspended the 24-month HOME commitment requirement for deadlines occurring in 2016, 2017, 2018, and 2019. 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 17 CDBG Disaster Recovery audits, which found that HUD did not



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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 is weakening the requirements for State grantees that chose to certify that their procurement processes were equivalent to the Federal procurement standards at 24 CFR (Code of Federal Regulations) 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 former 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. OIG issued a rollup report on CDBG Disaster Recovery procurement issues in September 2017, in which it concluded that HUD did not provide sufficient guidance and oversight to ensure that disaster grantees followed proficient procurement processes when purchasing goods and services.

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 continue to focus on the administration of RAD. OIG has completed one audit, which found that the PHA generally administered its RAD conversion in accordance with HUD's requirements for written agreements, project financing sources, reporting of financial



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data, the expenditure of HUD funding, tenant occupancy, the calculation of contract rents, and physical condition assessments. However, OIG did find that the PHA failed to accurately report on the obligation and authorization of its capital funds. Specifically, it inaccurately reported its fiscal year 2015 capital funds as obligated when binding agreements were not executed and caused some of its fiscal year 2016 capital funds to be authorized for a previously completed activity. OIG completed another audit, which found that the PHA did not certify new tenants or recertify former PHA residents that moved into the converted rental units and the PHA's waiting lists were not properly established and followed after the RAD conversion. OIG currently has three assignments open regarding RAD. These reviews will determine whether the PHA administered RAD in accordance with HUD's requirements.

**Multifamily and insured healthcare project audits:** FHA's multifamily and healthcare programs are a critical component of HUD's efforts to meet the Nation's need for decent, safe, and affordable housing. As of July 2017, the Office of Multifamily Housing Programs had issued 929 firm commitments for a total amount of more than \$14 billion, and the FHA multifamily insured portfolio consisted of 11,037 loans with unpaid principal balances of more than \$81 billion. OIG 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.

As of July 2017, the Office of Healthcare Programs had issued 251 firm commitments totaling more than \$2.9 billion, and the FHA residential care facilities insured portfolio consisted of 3,397 loans with unpaid principal balances of more than \$25 billion. OIG will continue to evaluate lenders and focus on owners and operators of healthcare programs.

Further, HUD began offering Sections 242 and 223(f) refinance loans allowing nonportfolio hospitals to refinance capital debt through FHA in 2009. As of July 2017, the FHA hospital facilities insured portfolio consisted of 105 loans with unpaid principal balances of \$7.1 billion. OIG will continue to monitor this program.