



AUDIT PLAN

As of December 1, 2007

OFFICE OF INSPECTOR GENERAL

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

OIG Audit Plan

Overview

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

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

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

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

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

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

The HUD Office of Inspector General – Office of Audit

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

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

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

The Audit Planning Process

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

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

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

Audit Environment at HUD

The Department's primary challenge is to find ways to improve housing and expand opportunities for families seeking to better their quality of life. HUD does this through a wide variety of housing and community development programs aimed at helping American families. These programs are funded through HUD's \$35+ billion annual budget. Additionally, HUD assists American families by insuring FHA mortgages for single-family and multifamily properties. FHA's outstanding mortgage insurance portfolio exceeds \$400 billion.

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

loans.

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

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

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

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

Improving the Integrity of Single-Family Insurance Programs

FHA is the federal government's single largest program to extend access to homeownership to individuals and families who lack the savings, credit history, or income to qualify for a conventional mortgage. At the end of fiscal year 2007, FHA had about \$339 billion in outstanding single-family mortgages, down from \$346 billion in 2006.

Consistent with GAO's removal of the single-family mortgage insurance programs from its high-risk area, OIG continues to reduce our audits of single-family lenders and loan origination. OIG's single-family-related audit goal for FY 2007 and FY2008 is 20 audits. OIG expects to meet that goal (the goal included both external and internal assignments). Lenders are targeted for audit through the use of data mining techniques, along with prioritizing audit requests from outside sources. All appropriate enforcement actions will be pursued against lenders through referrals to the Mortgagee Review Board, the Enforcement Center, and our own Office of Investigations.

Reducing Erroneous Payments in Rental Assistance Programs

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

The Office of Public and Indian Housing provides funding for rent subsidies through its public housing operating subsidies and tenant-based Section 8 rental assistance programs. These programs are administered by about 2,400PHAs, which are to provide housing to low-income families or make assistance payments to private owners who lease their rental units to assisted families. In fiscal year (FY) 2007, HUD anticipates that there will be approximately 1.2 million public housing units occupied by tenants. These units are under the direct management of approximately 3,500 PHAs.

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

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

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

Improving HUD's Execution and Accountability of Fiscal Responsibilities

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

HUD is focused on HUD-specific information technology management improvements. It continues its efforts to improve the information technology (IT) capital planning process, convert to performance-based IT service contracts, strengthen IT project management to better assure results, extend the data quality improvement program, and improve systems security on all platforms and applications.

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

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

Resolving Significant Issues Raised or Confronted by HUD and our Stakeholders

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

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

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

ONGOING AND PLANNED INTERNAL AUDITS

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

| Program areas/objectives | Lead region | Start date | Final report target date |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|------------|------------------------------------------------|
| Single Family Housing/FHA | | | |
| * HUD's monitoring of single family FHA lenders (KC 06 0024): To determine whether the Office of Single Family Housing is monitoring lender compliance with FHA origination requirements and imposing appropriate sanctions. | Kansas City | Aug. 2006 | Feb. 2008 |
| * Title II manufactured housing foundations (KC 06 0023): To determine whether HUD ensures requirements for foundations are met prior to insuring manufactured housing. | Kansas City | Aug. 2006 | Issued 09/28/2007 2007-KC-0004 |
| * HUD's oversight of the real estate owned management and marketing contracts (PH 07 0002): To determine adequacy of HUD's oversight of M&M contractor operations and REO sales and identify vulnerabilities. | Philadelphia | Oct. 2006 | Issued 08/17/2007 2007-PH-0002 |
| * Review of automated underwriting system referrals for manual underwriting (KC 07 0016): To determine whether referrals for manual underwriting are in compliance with FHA underwriting requirements. | Kansas City | Aug. 2007 | Issued 11/15/2007 2008-KC-0001 CM |
| * FHA single family homes in flood zones (CH 07 00xx) To determine if FHA insured homes located in flood zone have adequate flood insurance | Chicago | Sept. 2007 | July 2008 |
| * Enforcement of FHA's single-family underwriting requirements (KC 07 00xx) To review HUD's enforcement of its underwriting requirements and its impact on the FHA insurance fund. | Kansas City | Feb. 2008 | |

| Program areas/objectives | Lead region | Start date | Final report target date |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|------------|--------------------------|
| <p>* HUD's Controls over the FHA Single-Family Insurance Program's Appraisal Process (LA 07 0014) To determine whether HUD's controls over the appraisal process are adequate to ensure that only qualified appraisers are placed on the FHA Appraiser roster and that only qualified appraisers remained on the roster, and other issues</p> | Los Angeles | July 2007 | Mar. 2008 |
| <p>* Review of the 602 Program [a.k.a. Asset Control Area (ACA) Program] (NY 08 00XX): To Determine if ACA objectives of increasing homeownership for low-moderate income borrowers and contributing to the revitalization of blighted communities are being met.</p> | New York | Feb. 2008 | |
| <p>* Reverse Mortgages Exposure to borrower and HUD (CH 07 00XX): To determine HUD's controls and risks associated with the reverse mortgage program.</p> | Chicago | Feb. 2008 | |
| <p>* FHA's Single Family Controls and Performance Environment (KC 08 0001) To evaluate the Office of Single Family Housing's management controls and its performance measurement and reporting system</p> | Kansas City | Nov. 2007 | |
| Community Planning and Development | | | |
| <p>*** Nationwide Community Development Block Grant (CDBG) funds addressing urgent needs (NY 07 0004): To determine whether HUD is monitoring use of CDBG funds to ensure that distressed cities are addressing their urgent needs.</p> | New York | Oct. 2006 | Mar. 2008 |
| <p>*** Use of HUD funds to supplement general government funds (BO 08 0007). To determine if HUD ensures that Community Development Block Grant funds are not supplanting general government funds.</p> | Boston | Nov. 2007 | |
| <p>**** HUD funding of Colonias (FW 07 0024) Determine if HUD programs have been effective at addressing Colonias problems and if resources used in the most efficient manner.</p> | Fort Worth | July 2007 | Mar. 2008 |
| <p>*** Supportive Housing Program Grant Award Process (LA 08 00XX) To determine whether the SHP grants application and award process is efficient and effective.</p> | Los Angeles | Jan. 2008 | |
| <p>*** American Dream Downpayment Initiative (PH 07 0014) To determine whether HUD has controls to ensure downpayment assistance grantees do not exceed allowable downpayment assistance.</p> | Philadelphia | Oct. 2007 | Jan. 2008 |

| Program areas/objectives | Lead region | Start date | Final report target date |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|------------------|-----------------------------------------------|
| <p>*** HUD's monitoring of Community Development Block Grant Program recipients in Region III (PH 08 00XX) Determine whether the HUD field offices in Region III adequately monitor their Community Development Block Grant Program recipients</p> | Philadelphia | Jan. 2008 | |
| <p>*** CPD Monitoring of Grantees Financial Management System – San Juan Field Office (AT 08 00XX) To determine adequacy of CPD Monitoring of Grantees Financial Management System</p> | Atlanta | Feb. 2008 | |
| Public and Indian Housing | | | |
| <p>** Enterprise Income Verification System (KC 07 0020): To evaluate the accuracy of information in the Enterprise Income Verification System.</p> | Kansas City | Sep. 2007 | |
| <p>** Section 8 over housing (FW 06 0031): To determine the extent, causes, and impact of over housing, particularly in Authorities with 500 or fewer housing choice vouchers.</p> | Fort Worth | Sep. 2006 | Issued 09/28/2007 2007-FW-0001 |
| <p>** Community Service and Self-Sufficiency requirements (KC 07 0015) Is HUD requiring Housing Authorities to enforce this law and if so, how and to what extent?</p> | Kansas City | June 2007 | March 2008 |
| <p>** HUD oversight of Section 8 project based voucher. (CH 07 00xx). To determine the extent of HUD's oversight of the Section 8 project based vouchers</p> | Chicago | Feb. 2008 | |
| <p>*** HUD monitoring of Section 8 Housing Quality Standards (HQS) (AT 08 0003): To determine what HUD does to ensure Section 8 units meet HQS or enforce requirements when housing authorities do not comply.</p> | Atlanta | Oct. 2007 | |
| <p>*** HUD's Use of SEMAP's verification, monitoring, and compliance tools (FW 08 00XX) Determine if HUD is verifying SEMAP data, and utilizing SEMAPs monitoring and compliance tools.</p> | Fort Worth | Feb. 2008 | |
| <p>*** Funds owed to the Low-Rent Public Housing Fund (BO 08 00XX) To determine if HUD has adequate criteria governing the use of Low-Rent Public Housing Funds for the purpose of paying the expenses of other HUD and non-HUD programs.</p> | Boston | Feb. 2008 | |

| Program areas/objectives | Lead region | Start date | Final report target date |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|------------|--------------------------------------|
| **** PIH Family Self Sufficiency program (NY 08 00XX) To determine whether HUD is monitoring the FSS program sufficiently to ensure it is maximizing the effectiveness of the FSS program to meet Objective H.5 of the Department's Performance and Accountability Report. | New York | Feb. 2008 | |
| Multifamily Housing/FHA | | | |
| **** Utilization of Fee Inspectors (BO 07 0015) To determine whether HUD is effectively using contractual fee inspectors to monitor third-party contractors renovating HUD-insured properties. | Boston | July 2007 | Mar. 2008 |
| *** Multifamily Accelerated Processing (MAP) Claims Review (LA 08 00XX) To determine if HUD adequately reviews MAP loan underwriting. | Los Angeles | Oct. 2007 | |
| *** Residual Receipts Used in Lieu of Reserve for Replacement Funds (KC 08 00XX) To determine whether project managers followed HUD requirements when they approved using residual receipts in lieu of reserve for replacement funds for new regulation Section 8 projects. | Kansas City | Feb. 2008 | |
| *** Philadelphia Office of Multifamily Housing's Oversight of its Section 202 Program Participants. (PH 08 00XX) To determine whether the field office oversees its Section 202 program participants to ensure that the program and related HUD funds are administered in accordance with applicable requirements. | Philadelphia | Feb. 2008 | |
| *** HUD's monitoring of New York State PBCA. (NY 08 0003) To determine whether HUD is (1) complying with its monitoring and evaluation procedures and (2) properly paying administrative fees and housing assistance payments based on the PBCA's performance. | New York | Oct. 2007 | |
| Information Systems (IS) audits | | | |
| *** Network Vulnerability Assessment (DP 07 0004): Determine if the security implemented on HUD's network provides adequate controls to prevent abuse or unauthorized access to the Department's information resources. | IS Audit | Nov. 2006 | Completed |
| **** Review of HUD's Personal Identity Verification & Privacy Program (DP 07 0011): Determine whether HUD's efforts to implement the common identification standards for contractors and Federal employees adhere to Federal laws and guidelines governing privacy, personnel security, and information technology security. | IS Audit | Jan. 2007 | Issued 08/28/2007 2007-DP-0006 |

| Program areas/objectives | Lead region | Start date | Final report target date |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------|------------|---------------------------------------------|
| <p>*** Review of Unisys Performance and Security Controls (DP 07 0012): Determine whether Unisys operating system's performance and security controls are in compliance with applicable Federal laws and guidelines. We will also determine whether operational, management, and technical controls are in place and adequately protect HUD's data and resources.</p> | IS Audit | Jan. 2007 | Issued 11/01/2007 2008-DP-0001 |
| <p>*** Review of FHA's Controls Over its Information Technology Resources (DP 07 0013): Determine whether FHA's management of its information systems and their compliance with HUD IT policies and federal information system security requirements, and federal financial management requirements.</p> | IS Audit | Feb. 2007 | Issued 10/31/200/ 2008-DP-0002 |
| <p>*** FY 2007 FISCAM (DP 07 0014): To assess computer-related controls over the integrity, confidentiality, and availability of computerized data, particularly financial data, for the FY 2006 Consolidated Financial Statement Audit in accordance with FISCAM.</p> | IS Audit | Mar. 2007 | Jan. 2008 |
| <p>*** FY 2007 FISMA (DP 07 0015): FISMA requires Executive Branch OIGs to perform an annual evaluation of their department's IT security management program and report to the Office of Management and Budget in a prescribed questionnaire.</p> | IS Audit | Apr. 2007 | Jan. 2008 |
| <p>**** Child predators in Public Housing (DP 07 00xx) To develop and perform a computer match to identify child predators in public housing.</p> | Kansas City IS Audit | Feb. 2008 | |
| <p>**** Ginnie Mae Controls over Securitized Loans (DP 08 00xx) To develop and perform a computer match to identify loans in the Ginnie Mae polls that are not securitized by the Federal government.</p> | IS Audit | Feb. 2008 | |
| <p>*** Department of HUD's oversight & monitoring of major Service Contracts for information technology. (DP 08 00XX) To determine if HUD does not plan and monitor service contracts making HUD vulnerable to waste and abuse.</p> | IS Audit | Feb. 2008 | |
| Administrative/Other | | | |
| <p>*** Audit of HUD's Fiscal Year 2007 Financial Statements: To perform the annual audit of HUD's financial statements required by the Chief Financial Officers Act.</p> | Financial Audit | Jan. 2007 | Issued 11/14/2007 |

| Program areas/objectives | Lead region | Start date | Final report target date |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|------------|--------------------------------------|
| <p>**** FHEO's Use of Home Mortgage Disclosure Act Information (HMDA) (KC 07 00xx) To determine whether FHEO uses HMDA demographic information to develop indicators for targeting geographic areas or lenders for investigation.</p> | Kansas City | Feb. 2008 | |
| <p>*** HUD's contract administration (AT 07 0001): Determine if HUD administered its contracts in accordance with federal and its own procurement requirement.</p> | Atlanta | Dec. 2006 | Issued 09/19/2007 2007-AT-0001 |
| <p>*** Evaluate HUD's accounting for court settlements (FO 07 0003): To determine if HUD was (1) properly accounting for accounts receivable from court judgments and (2) enforcing collections for associated delinquent accounts.</p> | Financial Audit | Mar. 2006 | Completed |
| <p>**** Evaluate HUD's management of human resources (CH 07 0012): To assess HUD's implementation of REAP/TEAM with a focus on how HUD manages its contracting resources.</p> | Chicago | Jan. 2007 | Issued 09/29/2007 2007-CH-0001 |
| <p>**** Ginnie Mae Controls over Securitized Loans (FO 08 00xx) To determine whether the Ginnie Mae documents sufficiently protect the: (a) government from losses, (b) investors in MBS and (c) facilitate prima facie law enforcement against the entity officials in the event of Issuer noncompliance or fraud when Ginnie Mae defaults the Issuer</p> | Financial Audit | Feb. 2008 | |
| <p>**** Evaluate HUD's management of processing personnel actions. (FO 08 00XX): To determine whether HUD's Office of Administration's controls over processing personnel actions comply with HUD requirements and ensure personnel actions are appropriate and consistent.</p> | Financial Audit | Feb. 2008 | |
| <p>**** Evaluate HUD's management of human resources (CH 08 0008): To determine: 1) the adequacy of HUD's staffing resources in meeting its program objectives, and 2) whether HUD's offices are using the REAP studies when they have the ability to hire.</p> | Chicago | Oct. 2007 | |

EXTERNAL AUDITS

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

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

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

Mortgagee audits: Single-family lender audits continue to be a priority for FY 2008 due to the abuses being experienced in single-family programs. A specialized audit program has been developed for the purpose of targeting lenders for audit considering a number of high-risk indicators. In addition to being a part of goal #1 in HUD OIG's strategic plan, there continues to be congressional interest in our audits of the single-family program.

Multifamily project audits: Audits of multifamily project operations continue to be an area of interest in FY 2008. The focus of these audits will be on the misuse of project operating funds, also known as equity skimming.

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

