



**AUDIT PLAN**  
**As of May 14, 2018**  
**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 administers assistance and grant programs in response to many disasters.

On March 23, 2018, the President signed the omnibus appropriations for fiscal year 2018. The agreement includes a total of \$42.7 billion for HUD, an increase of \$3.9 billion, or 10 percent, over the fiscal year 2017 level. The budget provides

- \$230 billion for the Lead Hazard Reduction Program, which funds the remediation of lead paint in homes with young children.
- \$33.5 billion for tenant- and-project-based Section 8 rental assistance to maintain existing rental assistance for nearly 3.5 million households.
- \$7.5 billion for public housing programs. The agreement also increases to 455,000 the number of public housing units that can participate in the Rental Assistance Demonstration Program (RAD).
- \$3.3 billion for the CDBG formula program.
- \$2.5 billion for homeless assistance grants, which includes \$80 million for grants for family unification vouchers targeted to youth exiting foster care and at risk of homelessness and \$40 million for new Veterans Affairs Supportive Housing program vouchers for homeless veterans.
- \$1.4 billion for the HOME Investment Partnerships program to create affordable housing for low-income households.
- \$907.6 million to continue existing housing projects in the Section 202 and Section 811 programs, which provide housing targeted to elderly and disabled households. The agreement includes \$105 million for the development of new elderly housing and \$82.6 million for new housing for the disabled.
- \$821 million for housing and community development programs for Native American



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tribes. The agreement includes \$7 million for training and technical assistance to improve program delivery for Native American families.

- \$375 million for the Housing Opportunities for Persons With AIDs program.
- \$55 million for housing counseling assistance.

On September 8, 2017, through Public Law 115-56, Congress appropriated \$7.4 billion in supplemental disaster funds. Of the \$7.4 billion appropriated, \$10 million is provided for HUD administrative costs. Of the \$7.8 billion appropriated,

- \$5 billion was allocated for Disaster Harvey.
- \$615 million was allocated for Disaster Irma.
- \$243 million was allocated for Disasters Irma and Maria.
- \$1.5 billion was allocated for Disasters Irma and Maria.

On February 9, 2018, through Public Law 115-123, Congress appropriated \$28 billion for CDBG Disaster Recovery (CDBG-DR) grants. Of the \$28 billion appropriated,

- \$16 billion is for unmet recovery needs from 2017 disasters, of which \$11 billion is for areas affected by Hurricane Maria and includes \$2 billion for electrical system repairs or enhancements.
- \$12 billion is for mitigation activities in communities that received CDBG-DR grants in 2014-2017.

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.

### *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.



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The Office of Audit is responsible for conducting audits, as well as civil fraud reviews. 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 program or operational problems, improve program operations, and help ensure that recipients of HUD assistance comply with applicable requirements. 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 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.



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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 housing 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, home-ownership 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,
- promoting and enforcing fair housing and equal housing opportunity,
- insuring residential care facilities,
- insuring mortgages for single-family and multifamily dwellings,
- insuring loans for home improvements and manufactured homes, and



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- 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 conducts 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 fiscal year 2018, there were approximately 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 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. 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. The statute has gone through departmental clearance and should be published in the Federal Register for a 30-day comment period soon. 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.

RAD 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



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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.

The Indian Housing Block Grant (IHBG) is a formula grant that provides a range of affordable housing activities on Indian reservations and Indian areas. Eligible IHBG recipients are federally recognized Indian tribes or their tribally designated housing entities and a limited number of State-recognized tribes that were funded under the Indian Housing Program authorized by the United States Housing Act of 1937. An eligible recipient must submit to HUD an Indian housing plan each year to receive funding. At the end of each year, recipients must submit to HUD an annual performance report on their progress in meeting the goals and objectives included in their Indian housing plans. OIG is performing an audit of HUD's Office of Native American Programs' (ONAP) monitoring of grantees' investment, obligation, and expenditure of allocated IHBG funds. This audit will determine whether ONAP ensured that grantees invested, obligated, and spent program funds within HUD's required time limits.

### ***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. In November 2017, FHA released its 2017 Annual Report to Congress on the economic condition of the agency's Mutual Mortgage Insurance Fund. FHA reported that at the end of fiscal year 2017, the fund had a total economic net worth of \$25.6 billion and the capital ratio remained at the statutory minimum for a third straight year. However, the fund's economic net worth had fallen \$1.9 billion, and the capital ratio had declined from 2.35 to 2.09 percent from fiscal year 2016. According to HUD's December 2017 production report, FHA had more than 7.9 million single-family mortgages in force with an amortized balance of more than



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\$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 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 Single Family 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 two audits of this program, with a third audit ongoing. 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 continues to review for civil mortgage fraud and will actively seek out instances involving false claims deserving civil complaints to recover Federal funds.

Lenders are selected 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.



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### *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 Requirements Appropriation Act of 2017 provided \$35 billion in CDBG funds to address the long-term recovery in the wake of a wide range of devastation caused by Hurricanes Harvey in Texas; Irma in Florida, Georgia, South Carolina, and the U.S. Virgin Islands; Maria in Puerto Rico and the Virgin Islands; and Nate along the coast of Mississippi during the hurricane season of 2017. These hurricanes were followed by devastating wildfires in northern and southern California, which also caused massive destruction and loss of human life. 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 assistance reviews as part of its annual audit plan. OIG continues to be proactive in the oversight of Hurricane Sandy funding. It has issued 42 reports and has 5 ongoing audits in the affected States. Given the magnitude of the damage caused by these disasters and the extensive reconstruction and recovery efforts that will be needed, OIG's oversight of HUD's disaster assistance programs will continue and 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.



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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, the 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, which describes confirmed violations involving the misuse of charge cards and disciplinary actions taken.

The Office of National Drug Control Policy's (ONDCP) 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. OIG is conducting an attestation review of HUD's fiscal year 2017 ONDCP reporting.

The Digital Accountability and Transparency Act of 2014 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 required report was issued in November 2017, with additional reports to follow on a 2-year cycle in November 2019 and November 2021.

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



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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 assessment to determine whether an audit or review of the agency's grant closeout process is warranted. Although, the report was due by December 31, 2016, HUD issued its report as part of its Fiscal Year 2017 Annual Financial Report in November 2017.



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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>HUD's tracking of claim notes (LA-18-0015):</b> To determine whether HUD had adequate controls to ensure that partial claim notes were properly tracked for future collection.  | <b>Los Angeles</b> | <b>October 2017</b>  | <b>June 2018</b>         |
| **** <b>FHA preforeclosure claim debenture interest curtailment (LA-18-0014):</b> To determine whether HUD paid excessive debenture interest due to untimely lender preforeclosure actions.   | <b>Los Angeles</b> | <b>October 2017</b>  | <b>August 2018</b>       |
| **** <b>Review of HUD's Single Family Distressed Asset Stabilization Program note sale transactional analysis (KC-18-0001):</b> To determine whether selling notes in bulk was more beneficial than selling notes individually and whether HUD ensured that the sales process was completely fair and open and free from any conflicts of interest. | <b>Kansas City</b> | <b>October 2017</b>  | <b>June 2018</b>         |
| **** <b>HUD oversight of the Housing Counseling Program (NY-18-0001):</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.   | <b>New York</b>    | <b>November 2017</b> | <b>September 2018</b>    |
| **** <b>FHA Claims Without Conveyance of Title program (NY-18-0003):</b> To determine whether FHA's Claims Without Conveyance of Title program revisions were beneficial to the FHA insurance fund.   | <b>New York</b>    | <b>December 2017</b> | <b>September 2018</b>    |



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| Program areas and objectives   | Lead region | Start date     | Final report target date |
|--|-------------|----------------|--------------------------|
| <p><b>**** Recovery of partial claims from nonconveyance foreclosures and third-party sales (KC-18-0007):</b> To determine whether HUD identified and collected outstanding partial claims out of surplus proceeds from nonconveyance foreclosures and third-party sales of properties.</p>                                | Kansas City | January 2018   | August 2018              |
| <p><b>**** HUD’s servicing of home equity conversion mortgage loans (AT-18-0008):</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.</p>                      | Atlanta     | February 2018  | September 2018           |
| <p><b>**** FHA partial claim eligibility (corrective action verification):</b> To determine whether HUD implemented adequate controls to prevent or detect payment of partial claims that were ineligible due to a prior claim paid within 24 months.</p>  | Los Angeles | May 2018       | January 2019             |
| <p><b>**** Review of HUD’s Single Family Distressed Asset Stabilization Program participating-servicer compliance:</b> To determine whether HUD ensured that only qualified loans were included in the program’s note sales and ensured that it paid only for eligible expenses when it paid claims on the note sales.</p> | Kansas City | July 2018      | January 2019             |
| <p><b>**** Improper partial claims that did not reinstate the loans:</b> To determine whether FHA paid improper partial claims that did not reinstate the loans in default.</p>  | Kansas City | July 2018      | March 2019               |
| <p><b>**** Reporting of nonincentivized loan modifications and filing of partial claims:</b> To determine whether HUD needs to issue regulations requiring servicers to report nonincentivized loan modifications and file the partial claims within specific timeframes.</p>  | Atlanta     | August 2018    | April 2019               |
| <p><b>**** Review of the Loan Review System:</b> To determine whether FHA’s implementation of the Loan Review System met 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    | September 2018 | April 2019               |



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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 2018  | June 2019                |
| **** <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 2018 | June 2019                |
| <b>Community planning and development</b>   |              |               |                          |
| *** <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.  | Fort Worth   | May 2017      | May 2018                 |
| *** <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.   | Fort Worth   | May 2017      | May 2018                 |
| *** <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. | Fort Worth   | July 2017     | May 2018                 |
| *** <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.         | Atlanta      | August 2017   | September 2018           |
| *** <b>HUD's oversight of its Community Compass Technical Assistance and Capacity Building program (PH-18-0002):</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.   | Philadelphia | October 2017  | July 2018                |



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| Program areas and objectives   | Lead region  | Start date    | Final report target date |
|--|--------------|---------------|--------------------------|
| <p><b>*** The Council of the Inspectors General on Integrity and Efficiency’s joint review of disaster assistance delivery (KC-18-0011):</b> To determine whether the process of appropriating and distributing disaster preparedness, response, and recovery funding efficiently and effectively provided a universally understood, orderly, and continuing means of disaster assistance.</p> | Kansas City  | March 2018    | September 2018           |
| <p><b>*** HUD technical assistance awards to Continuum of Care (LA-18-0019):</b> To determine whether the Office of Special Needs conducted the notice of funding availability award selection and assignment process for technical assistance applicants qualifying for the Continuum of Care or homeless programs in an appropriate manner.</p>  | Los Angeles  | March 2018    | September 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             |
| <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   | July 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      | October 2018  | May 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 | July 2018                |
| <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    | May 2018                 |
| <p><b>** IHBG funding allocation (LA-18-0011):</b> To determine whether HUD ONAP ensured the accuracy of tribal enrollment numbers submitted by registered Native American tribes or tribally designated housing entities.</p>   | Los Angeles  | October 2017  | May 2018                 |



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| Program areas and objectives   | Lead region         | Start date          | Final report target date |
|--|---------------------|---------------------|--------------------------|
| <p><b>** HUD Real Estate Assessment Center housing quality standards inspection processes and procedures (FW-18-0007):</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>  | <b>Fort Worth</b>   | <b>October 2017</b> | <b>May 2018</b>          |
| <p><b>*** Timeliness of investments, obligations, and expenditures of IHBG funds (LA-18-0018):</b> To determine whether HUD ONAP ensured that grantees invested, obligated, and spent IHBG program funds within HUD-required time limits.</p>  | <b>Los Angeles</b>  | <b>March 2018</b>   | <b>September 2018</b>    |
| <p><b>** HUD’s oversight of overhoused tenants in public housing:</b> To determine whether HUD had adequate oversight of overhoused families in public housing units.</p>  | <b>Philadelphia</b> | <b>April 2018</b>   | <b>December 2018</b>     |
| <p><b>** PHA access to the Do Not Pay system (KC-18-0013):</b> To determine whether PHAs that administer rent subsidy programs had access to the information contained in the Do Not Pay system.</p>   | <b>Kansas City</b>  | <b>April 2018</b>   | <b>September 2018</b>    |
| <p><b>**Section 184 Oversight – Congressional Request:</b> To identify and evaluate actions taken by HUD’s Office of Loan Guarantee since issuance of audit 2015-LA-0002, including a review of \$2.6 million received for the Section 184 program.</p>  | <b>Los Angeles</b>  | <b>May 2018</b>     | <b>August 2018</b>       |
| <p><b>** Housing program participants with Internal Revenue Service income discrepancies:</b> To determine which PHAs or multifamily properties had a higher number of participants whose HUD-reported income did not match the income reported to the Internal Revenue Service. Simultaneously, the Treasury Inspector General for Tax Administration will be auditing to improve its systemic fraud detection programs to identify tax returns with a significant risk of fraud for additional review before refunds are paid.</p> | <b>Kansas City</b>  | <b>May 2018</b>     | <b>January 2019</b>      |



## AUDIT PLAN

| Program areas and objectives   | Lead region         | Start date           | Final report target date |
|--|---------------------|----------------------|--------------------------|
| <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>May 2018</b>      | <b>February 2019</b>     |
| <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.                                    | <b>Fort Worth</b>   | <b>August 2018</b>   | <b>January 2019</b>      |
| <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.  | <b>New York</b>     | <b>January 2019</b>  | <b>July 2019</b>         |
| <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>February 2019</b> | <b>September 2019</b>    |
| <b>Multifamily housing-FHA</b>   |                     |                      |                          |
| <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. | <b>Boston</b>       | <b>April 2017</b>    | <b>May 2018</b>          |
| <b>**** HUD's approval of Section 232 loan originations (PH-18-0001):</b> To determine whether HUD insured loans for projects that did not qualify for mortgage insurance.   | <b>Philadelphia</b> | <b>October 2017</b>  | <b>August 2018</b>       |
| <b>**** Delays in submitting claims on Section 232 loans:</b> To determine the impact of lenders' not submitting claims on delinquent loans.   | <b>Chicago</b>      | <b>April 2018</b>    | <b>September 2018</b>    |



## AUDIT PLAN

| Program areas and objectives   | Lead region       | Start date           | Final report target date |
|--|-------------------|----------------------|--------------------------|
| <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>October 2018</b>  | <b>March 2019</b>        |
| <b>Information systems (IS) audits</b>   |                   |                      |                          |
| <p><b>* Audit of information system controls over Ginnie Mae (DP-18-0001):</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 2018</b> | <b>November 2018</b>     |
| <p><b>* Review of Office of the Chief Financial Officer financial management system functionality (DP-18-0002):</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>February 2018</b> | <b>November 2018</b>     |
| <p><b>* Review of information systems controls over FHA (DP-18-0004):</b> To evaluate general and application controls for FHA’s 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.</p>   | <b>IS Audit</b>   | <b>March 2018</b>    | <b>November 2018</b>     |
| <p><b>* Fiscal year 2018 FISCAM Audit (DP-18-0003):</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 fiscal year 2018 Consolidated Financial Statement Audit under the Chief Financial Officer’s Act of 1990.</p>        | <b>IS Audit</b>   | <b>March 2018</b>    | <b>November 2018</b>     |



## AUDIT PLAN

| Program areas and objectives   | Lead region     | Start date    | Final report target date |
|--|-----------------|---------------|--------------------------|
| <p><b>**** Sufficiency of the HERMIT system for administering home equity conversion mortgage loans:</b><br/>To determine whether the Home Equity Reverse Mortgage Information Technology (HERMIT) system was sufficient in accomplishing all aspects of home equity conversion mortgage loans.</p>  | IS Audit        | January 2019  | August 2019              |
| <b>Administrative-other</b>  |                 |               |                          |
| <p><b>* Recovery of unclaimed funds due to HUD (KC-180006):</b> To determine whether HUD identified and collected funds due to it as identified on States' unclaimed fund websites.</p>  | Kansas City     | November 2017 | June 2018                |
| <p><b>Improper payment compliance audit (FO-18-0301):</b> To (1) determine HUD's compliance with reporting and improper payment reduction requirements; (2) evaluate the accuracy and completeness of HUD's reporting of improper payments data, including its performance in reducing and recapturing improper payments; and (3) evaluate HUD's assessment of the level of risk associated with the high-priority programs and the quality of the improper payment estimates and methodology (including changes and updates).</p> | Financial Audit | December 2017 | May 2018                 |
| <p><b>(a) Fiscal year 2018 consolidated financial statement audit (FO-18-0001):</b> To express an opinion on HUD's fiscal year 2018 consolidated financial statements.</p>   | Financial Audit | February 2018 | November 2018            |
| <p><b>(a) Fiscal year 2018 FHA financial statement audit (FO-18-0100):</b> To express an opinion on FHA's fiscal year 2018 financial statements.</p>   | Financial Audit | February 2018 | November 2018            |
| <p><b>(a) Fiscal year 2018 Ginnie Mae financial statement audit (FO-18-0200):</b> To express an opinion on Ginnie Mae's principal financial statements.</p>  | Financial Audit | February 2018 | November 2018            |
| <p><b>* Fiscal year 2017 review of the HUD travel card (KC-18-0010):</b> To determine whether travel cards were used for potentially illegal, improper, or erroneous purchases.</p>  | Kansas City     | March 2018    | September 2018           |
| <p><b>* HUD's use of funds requested for building improvements:</b> To determine whether HUD used the funds it requested and received for building improvements in accordance with its request and the approval of the House and Senate Committees on Appropriations.</p>  | Philadelphia    | April 2018    | August 2018              |



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| Program areas and objectives  | Lead region         | Start date          | Final report target date |
|---|---------------------|---------------------|--------------------------|
| * <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>March 2019</b>        |
| <b>(a) Review of HUD’s report on the Grants Oversight and New Efficiency Act:</b> To determine whether the Grants Oversight and New Efficiency Act report submitted to Congress by HUD was accurate.  | <b>New York</b>     | <b>June 2018</b>    | <b>December 2018</b>     |
| * <b>HUD’s oversight of Davis-Bacon requirements:</b> To determine (1) whether HUD implemented the correct Davis-Bacon wage rates for its construction contracts and (2) whether HUD had adequate oversight to ensure that all of its program areas coordinated with the Office of Davis-Bacon and Labor Standards when executing applicable contracts. | <b>Philadelphia</b> | <b>August 2018</b>  | <b>April 2019</b>        |
| * <b>HUD employees with delinquent debt reported to the Do Not Pay system:</b> To determine whether HUD had taken steps to reduce payments to employees with delinquent Federal debt reported in the Do Not Pay system.   | <b>Kansas City</b>  | <b>October 2018</b> | <b>June 2019</b>         |



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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 also been determined based on the 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 fiscal year 2018 due to the abuses being experienced in single-family programs. A specialized audit program has been developed to identify lenders for review, considering a number of high-risk indicators. 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 Fiscal Year 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-DR funds.

OIG's external audit work regarding grantees commonly finds a lack of adequate controls, including issues with subgrantee activities, ineligible transitional shelter assistance payments, disbursing disaster funds to eligible homeowners, performance of independent cost estimates and adequate cost analyses, inadequate supporting documentation, and ineligible expenses. Grantees are also challenged by unfamiliarity with HUD rules and regulations, controls over their rehabilitation and reimbursement program, noncompliance with policies and procedures, and failure to follow State and Federal procurement regulations. Our audits have found that in some instances, little or no monitoring occurred and there was no internal audit function, 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 grantees and subgrantees receiving funding from HUD programs, including CDBG-DR funds. Therefore, audits of grantees and their subgrantee activities will continue to be given emphasis this fiscal year.

OIG has issued 17 CDBG-DR audit reports, which found that HUD did not provide



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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-DR 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.

Additionally, the OIG and HUD CPD joint collaboration, which began in February 2016 to assist grantees and subgrantees in the areas in which OIG audit reports determined that the grantees and subgrantees were most vulnerable, continues to work on developing more industry advisory bulletins.

**Public and Indian housing:** The low-income program serves approximately 984,000 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 two audits, which found that one PHA generally administered its RAD conversion in accordance with HUD's requirements for written agreements, project financing sources, reporting of financial data, the expenditure of HUD funding, tenant occupancy, the calculation of contract rents, and physical condition assessments. However, OIG found 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 who moved into the converted rental units and the PHA's waiting lists were not properly established and followed after the RAD conversion. OIG has seven open assignments 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,



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and affordable housing. In fiscal year 2017, the Office of Multifamily Housing Programs issued 1,126 firm commitments for a total amount of more than \$16 billion, and the FHA multifamily-insured portfolio consisted of 11,295 loans with unpaid principal balances of more than \$86 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.

During the first quarter of fiscal year 2018, the Office of Healthcare Programs had issued 82 firm commitments totaling more than \$1 billion, and the FHA residential care facilities' insured portfolio consisted of 3,514 loans with unpaid principal balances of more than \$27 billion. OIG will continue to evaluate lenders and focus on owners and operators participating in healthcare programs.

Further, HUD is offering Sections 242 and 223(f) refinance loans, which allow nonportfolio hospitals to refinance capital debt through FHA. In fiscal year 2017, the FHA hospital facilities' insured portfolio consisted of 104 loans with unpaid principal balances of \$7 billion. OIG will continue to monitor this program.