



**AUDIT PLAN**  
**As of May 31, 2010**  
**OFFICE OF INSPECTOR GENERAL**  
**DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**

## ***Overview***

The U.S. Department of Housing and Urban Development's primary mission is to increase homeownership, support community development, and increase access to affordable housing free from discrimination. HUD has a \$46.9 billion budget for fiscal year 2010, an increase of 12.2 percent over the fiscal year 2009 budget of \$41.8 billion. The Department intends to respond aggressively to the housing crisis as well as contribute to broader national priorities on energy, sustainable growth, community revitalization and poverty alleviation. In addition, Congress appropriated \$13.6 billion for HUD as part of the 2009 American Recovery and Reinvestment Act (the "Recovery Act") and \$9.4 billion for disaster recovery in 2008.

This audit plan provides coverage of HUD's program areas and management and 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 most recent President's Management Agenda for improving government performance, and OIG's strategic plan.

### ***The HUD Office of Inspector General – Office of Audit***

The HUD OIG is one of the original 12 Offices of Inspector General established by the Inspector General Act of 1978. While physically located with the Department, the 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.

Under the leadership of the Inspector General, the Assistant Inspector General for Audit is responsible for managing the Office of Audit. The office has four headquarters divisions, the Financial Audits Division, the Information Systems Audits Division, the Headquarters Audit Division, and the Technical Oversight and Planning Division. There are nine regional offices in the country including a Gulf Coast Region in New Orleans, which is responsible for auditing disaster recovery funds provided to areas affected by Hurricanes Katrina, Rita, and Wilma. Each regional office is supervised by a Regional Inspector General for Audit.

### ***The Audit Planning Process***

Audit planning is a continuing process to focus resources on areas of greatest benefit to the taxpayer and the Department. Our 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. We identify audits through discussions with program officials, the public, and Congress; conducting audits; and reviewing proposed legislation, regulations, and other HUD issuances. We also conduct audits HUD and Congress request, as well as those identified from our HOTLINE.



## AUDIT PLAN

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### ***Audit Environment at HUD***

The Department's primary mission is to increase homeownership, support community development, and increase access to affordable housing free from discrimination. 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 Community Development Block Grant funds, thousands of public housing agencies 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 approximately \$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:

- ***Contribute to improving the integrity of single-family insurance programs***
- ***Contribute to the oversight objectives of the American Recovery and Reinvestment Act of 2009***
- ***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 OIG's stakeholders***

### ***Improving the Integrity of Single-Family Insurance Programs***

FHA is the federal government's single largest program to extend homeownership to individuals and families who lack the savings, credit history, or income to qualify for a conventional mortgage. FHA had 73 percent of single family mortgage dollar volume in the last quarter of 2009 (up from 1.9 percent in 2006), serving 5.9 million households in 2009. In addition, HUD is actively involved in foreclosure mitigation, homeownership counseling and a myriad of efforts to curb mortgage abuse and lending discrimination.



## AUDIT PLAN

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Significant changes in the single-family mortgage industry and the meltdown of the subprime market require a new emphasis on single-family lenders by OIG. Further, HUD received \$4 billion for the Neighborhood Stabilization Program in 2008 and another \$2 billion in 2009 (part of the Recovery Act). The program aids localities to deal with neighborhoods adversely affected by foreclosures. Therefore, OIG plans to increase its efforts in external and internal audits of HUD's activities in the single-family mortgage industry.

Lenders are targeted for audit through the use of data-mining techniques, along with prioritizing audit requests from outside sources. All appropriate enforcement actions will be pursued against lenders through referrals to the Mortgage Review Board, the Enforcement Center, and our own Office of Investigation.

The Office of Audit is also placing an emphasis on civil mortgage fraud and will actively seek out instances involving false claims deserving civil complaints to recover federal funds.

### *Recovery Act*

The Recovery Act invested \$13.6 billion in HUD programs to modernize and "green" the public and assisted housing inventory, increase the low-income housing tax credit market, stabilize neighborhoods hit by foreclosures, and prevent homelessness. The Office of Audit oversight objectives of HUD funding under the Recovery Act are to determine whether:

- Funds are awarded and distributed in a prompt, fair, and reasonable manner;
- The recipients and uses of all funds are transparent to the public, and the public benefit of these funds are reported clearly, accurately, and in a timely manner;
- Funds are used for authorized purposes and instances of fraud, waste, error, and abuse are mitigated;
- Projects funded under the Act avoid unnecessary delays and cost overruns; and
- Program goals are achieved, including specific program outcomes and improved results on broader economic indicators.

The OIG has 87 audits in process or completed involving the Recovery Act as of April 30, 2010. These include reviews of the Department's front end risk assessments the Office of Management and Budget required for each program area receiving Recovery Act funds. We also conducted several capacity reviews of entities that applied for or will receive Recovery Act funds. Our objective in the capacity audits is to determine whether the entities have the necessary financial and personnel resources to properly handle the increase in funding. We will conduct reviews of selected competitive funding portions of the Recovery Act programs to determine that HUD carries out the grant competitions in accordance with applicable requirements and in a fair and equitable manner. Our regional offices are now using use risks assessments to identify appropriate grantees in their regions to audit Recovery Act expenditures.



## AUDIT PLAN

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### ***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 public housing agencies. 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 3,200 public housing agencies, 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 2009, there were approximately 1.2 million public housing units occupied by tenants. These units are under the direct management of the public housing agencies.

The Office of Housing administers a variety of assisted housing programs including parts of the Section 8 program and the Sections 202 and 811 programs. The subsidies provided through these programs are called “project-based” subsidies because they are tied to particular properties; therefore, tenants who move from such properties may lose their rental assistance.

HUD has 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.

OIG will continue to focus on this program area. Our reports continue to target significant issues related to this program area.

### ***Improving HUD’s Execution and Accountability of Fiscal Responsibilities***

HUD is focused on HUD-specific information technology (IT) management improvements. It continues its efforts to improve the 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.

As in the past, OIG will review a variety of HUD programs with the objective of improving efficiency and effectiveness.

### ***Working Significant Mandated Audits***

Congress has tasked the Office of Audit with legislated audit work. For example, the Appropriations Committee tasked OIG with audit responsibility for the \$3.5 billion in disaster



## AUDIT PLAN

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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. The Office of Audit also reviews HUD's activities related to Gulf Coast hurricane disaster relief efforts. This effort 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 that are involved in the overall effort.

In addition to the HUD-specific mandates issued by Congress, all OIGs must meet several government-wide 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).



## AUDIT PLAN

### 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*
  - \*\*\*\* *Contributes Working Significant Mandated Audits*
- (a) *Audit contributes to initiatives created under the Neighborhood Stabilization Program*
- (b) *Audit contributes to initiatives legislated by the American Recovery and Reinvestment Act*

Program areas/objectives	Lead region	Start date	Final report target date
<b>Single Family Housing/FHA</b>			
* <b>FHA oversight of Reverse Mortgagor's payment of taxes and insurance (FW 10 0013):</b> Determine why HUD is deferring foreclosure when borrowers do not pay property taxes or other required fees and the impact of the deferrals on HUD insurance claims, and if HUD is timely foreclosing on properties of deceased mortgagors.	Fort Worth	December 2009	August 2010
* <b>FHA controls over obtaining Indemnification Agreements (KC 10 0013):</b> To determine whether HUD has adequate controls to track and obtain indemnification agreements from lenders for materially deficient loans.	Kansas City	December 2009	June 2010
* <b>FHA Annual Approval of Lenders (KC 10 0006):</b> To determine what controls are in place at FHA to ensure timely submission and review of required annual lender audited financial reports.	Seattle	October 2009	August 2010
* <b>FHA's Automated Underwriting (LA 10 0009):</b> To determine if HUD's automated underwriting systems have weaknesses that were, or could be, exploited to circumvent FHA underwriting standards	Los Angeles	October 2009	August 2010



## AUDIT PLAN

Program areas/objectives	Lead region	Start date	Final report target date
<p><b>* Ginnie Mae’s Monitoring of Mortgage Delinquencies:</b> To determine whether Ginnie Mae’s approved issuers are monitoring mortgage delinquencies and defaulted loans per its requirements.</p>	Headquarters	June 2010	December 2010
<p><b>*** HUD’s Home Affordable Modification Program (HAMP):</b> To determine and analyze the processes and controls over HAMP, and determine how HAMP will/may impact other loss mitigation options and the FHA fund.</p>	Fort Worth	May 2010	November 2010
<p><b>***HUD’s Selection of Management and Marketing Contractors for single-family properties (HA 10 0001):</b> To gain an understanding of the contracting model Single Family plans to use in procuring management and marketing services for REO properties.</p>	Headquarters	October 2009	June 2010
<p><b>*Review of HUD’ Discount Sales Program:</b> To determine whether the financial benefits offered to HUD approved nonprofit entities from the sales of discounted REO properties, are passed on to low and moderate income homebuyers; and whether HUD should require low to moderate income homebuyers to reside at the property as their principal residence (i.e. for a certain length of time) as a condition to receiving the discounted property.</p>	Denver	October 2010	June 2011
<p><b>* Philadelphia HOC Quality Assurance Procedures for FHA Lenders:</b> Determine whether the Philadelphia HOC has an effective quality assurance process for monitoring lenders within its jurisdiction to ensure that they are complying with program requirements..</p>	Philadelphia	October 2010	June 2011
<p><b>*HUD’s Lender Approval &amp; Recertification Division’s Tracking of Lenders Re-entering the FHA Program:</b> To determine whether HUD has adequate controls in place to track lenders who voluntarily leave the FHA program with outstanding indemnification requests, and then return as the same lender or a new lender.</p>	Kansas City	October 2010	June 2011





## AUDIT PLAN

Program areas/objectives	Lead region	Start date	Final report target date
<p><b>*Review of FHA Pre-closing Mortgage Files submitted by New Direct Endorser Lenders:</b> To determine if HUD/FHA is consistently following the applicable guidance regarding the submission and review of the initial loans underwritten by newly approved direct endorsement lenders. Also to determine if HUD/FHA followed GAO's 2004 report audit recommendations regarding the review and rating of the initial loan files submitted by newly-approved direct endorsement lenders.</p>	Los Angeles	August 2010	March 2011
<b>Community Planning and Development</b>			
<p><b>***Duplication of Federal Disaster Recovery Benefits:</b> To determine whether HUD has established and implemented appropriate agency policies and procedures to prevent duplication of benefits with other federal agencies.</p>	Kansas City	June 2010	February 2011
<p><b>***(a)Review of Grantee compliance with 18-month statutory obligation deadline.</b> To determine if Neighborhood Stabilization Program recipients entered accurate obligations into HUD's DRGR system and maintained proper documentation to support the accuracy of the obligation amounts and their compliance with requirements.</p>	Atlanta	October 2010	May 2011
<b>Public and Indian Housing</b>			
<p><b>*** HUD's oversight over fee-for-service by Housing Authorities:</b> Determine the appropriateness of HUD's fee-for-service for management and bookkeeping</p>	Los Angeles	October 2010	May 2011
<p><b>** HUD's oversight of enhanced vouchers:</b> To determine whether funds associated with enhanced vouchers were paid to families housed in appropriate-size units and whether the rents were reasonable</p>	Philadelphia	June 2010	January 2011
<p><b>*** Housing Choice Voucher Shortfall (KC 10 0004):</b> Determine whether HUD is adequately monitoring PHA's Section 8 Programs and taking enforcement actions against authorities</p>	Seattle	October 2009	April 2010
<p><b>*** HUD's oversight of Capital Bond Financing Activities:</b> HUD's Implementation and oversight of the Capital Fund Financing Program</p>	Atlanta	August 2010	March 2011



## AUDIT PLAN

Program areas/objectives	Lead region	Start date	Final report target date
*** <b>HUD's oversight of Housing Authorities Energy Conservation Programs:</b> Determine whether Public Housing has adequate controls and oversight of its energy conservation programs	New York	January 2010	September 2010
*** <b>HUD's oversight Housing Authorities over payments to Section 236 Projects (BO 10 0016):</b> Determine whether housing authorities are overpaying Section 8 subsidies to Section 236 Project Owners.	Boston	March 2010	August 2010
** <b>HUD's Oversight of its Section 8 Project-Based Voucher Program (CH 10 0028):</b> Determine whether HUD has adequate oversight of the program.	Chicago	May 2010	September 2010
** <b>HUD oversight of Multiple Subsidy tenants in Section 8 and Public Housing:</b> To determine if HUD's oversight of Housing Authorities' disposition of multiple subsidy tenants in section 8 housing is effective.	Kansas City	December 2010	May 2011
*** <b>Accounting for Pension &amp; Other Post Employment Benefit Liabilities for Public Housing Authorities:</b> To determine if Determine if public housing authorities are accounting for pension and other post employment benefit liabilities in accordance with generally accepted accounting principles.	New York	Sept 2010	April 2011
<b>Multifamily Housing/FHA</b>			
*** <b>HUD's oversight of Section 232 Projects:</b> Determine if HUD has implemented adequate controls to properly monitor Section, 232 insured mortgages.	Fort Worth	June 2010	February 2011
*** <b>HUD's Oversight of Multifamily Project-Based Voucher Review Process (CH 10 0013):</b> To determine whether HUD has adequate controls over its Multifamily Section 8 housing voucher processing	Chicago	December 2009	September 2010
<b>American Recovery and Reinvestment Act (ARRA)</b>			
*** <b>(b)Recovery Act Review of the Effectiveness of Department Data Quality Review Process (DP 10 0012):</b> Determine if HUD has fully implemented an internal control structure that is effective in ensuring recipient data are reported completely, accurately, and in a timely manner; and that many material omissions and/or significant errors are indentified and corrected	IS Audit	January 2010	August 2010



## AUDIT PLAN

Program areas/objectives	Lead region	Start date	Final report target date
<p><b>***(b)HUD/PIH's Selection Process for ARRA Public Housing Capital Fund Competitive Grants:</b> To Determine whether the process used to select competitive projects was merit-based, effective, and efficient.</p>	Fort Worth	June 2010	March 2011
<b>Information Systems (IS) audits</b>			
<p><b>*** *FY 2009 Federal Information System Controls Audit Manual (FISCAM) (DP 09 0011):</b> To assess computer-related controls over the integrity, confidentiality, and availability of computerized data, particularly financial data, for the FY 2008 Consolidated Financial Statement Audit in accordance with FISCAM</p>	IS Audit	March 2009	May 2010
<p><b>**** Review of Selected Controls Over HUD's Configuration Management Activities (DP 10 0009):</b> Evaluate HUD's software change controls.</p>	IS Audit	March 2010	August 2010
<p><b>**** DP 10 0010 Review of HUD's Unisys Re-Host Project (DP 10 0010):</b> evaluate HUD's Unisys re-host project efforts.</p>	IS Audit	March 2010	July 2010
<p><b>****Evaluation of HUD's Network Devices (DP 10 0003):</b> Evaluate network devices such as firewalls, routers, and switches that are actively used on the HUD network to determine whether sufficient controls are in place to prevent malicious network traffic redirection, transmission interception, alteration of information in transit, and disclosure of sensitive information.</p>	IS Audit	January 2010	September 2010
<p><b>****Review of HUD's Information Technology Services (HITS) Contracts (DP 10 0005):</b> To evaluate (1) HUD's management of the HITS contracts, (2) the services provided by the contractors based on HUD's core functional business needs, (3) the levels of contractor performance as outlined in the contracts, and (4) HUD's and contractors' compliance with applicable Federal requirements.</p>	IS Audit	February 2010	September 2010



## AUDIT PLAN

Program areas/objectives	Lead region	Start date	Final report target date
<p><b>**** Assessment of HUD's Ability to Comply with OMB Circular A-127 Requirements (DP 10 0008):</b> Evaluate HUD's ability to comply with the requirements of the revised Office of Management and Budget Circular A-127. We will focus on the significant revisions and new requirements that became effective October 2009.</p>	IS Audit	March 2010	August 2010
<p><b>****FY 2010 Evaluation of HUD Security Required by Federal Information Security Management Act (FISMA):</b> Annual independent evaluation of HUD's information security program and practices to determine if they meet the security responsibilities of the FISMA.</p>	IS Audit	June 2010	November 2010
<b>Administrative/Other</b>			
<p><b>**** Evaluate HUD's recruitment process:</b> To assess the HUD Office of Human Resources' recruitment process and to determine whether it is recruiting staff in accordance with federal and internal requirements and policies.</p>	Philadelphia	February 2010	October 2010
<p><b>*** Evaluate HUD's closeout of contracts (HA 10 0002):</b> To determine whether OCPO is timely performing closeout procedures on completed and expired contracts</p>	Headquarters	October 2009	June 2010
<p><b>***Review of OCPO's Closeout Procedures on Completed &amp; Expired Ginnie Mae Contracts:</b> To determine whether OCPO is timely performing closeout procedures on completed and expired contracts. To determine whether Ginnie Mae is deobligating and reprogramming unexpended funds from completed and expired contracts.</p>	Headquarters	November 2010	July 2011
<p><b>***Review of HUD's Interagency Agreements &amp; Contracts:</b> To determine if HUD is obtaining goods and services from other federal agencies in the most economic and efficient manner.</p>	Headquarters	October 2010	June 2011
<p><b>***HUD's implementation of the President's Contracting Reforms:</b> Evaluate HUD's efforts to comply with the President's directive to: reduce contract spending by 7 percent, reduce high risk contracts, increase openly competed contracts, convert contracted work to federal employees, and report contractor performance into the government wide reporting system.</p>	Headquarters	December 2010	August 2011



# 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, 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's stakeholders, particularly Congress. Of particular interest this year are Recovery Act related 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.

**Single-family and lender audits:** Single-family lender audits continue to be a priority for FY 2010 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 goal in HUD OIG's strategic plan, there continues to be congressional interest in OIG's audits of the single-family program. In addition, OIG plans to perform audits of mortgage companies originating and underwriting, FHA home equity conversion mortgages, along with additional audits of Ginnie Mae participants.

**Community planning and development:** In an effort to continue emphasis on improving efficiency and effectiveness, OIG is continuing to emphasize this program area. In addition, disaster recovery funding is being provided primarily through Community Development Block Grants. Congress continues to take interest in the use of disaster funds to ensure that they are reaching those who need them. OIG also plans to perform audits of grantees receiving funding from the \$5.92 billion Neighborhood Stabilization Program.

**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. However, we will be increasing our focus on the public housing capital fund, in light of the \$4 billion in Recovery Act funds being directed toward that program. The quality of housing and the cost of administering these programs continue to be concerns that will be addressed as workload permits. Public housing agency development activities carried out by affiliated nonprofit entities is another area of emphasis that will be addressed as resources permit.

**Multifamily and insured health care project audits:** Audits of multifamily project operations continue to be an area of interest in FY 2010. 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. Of particular concern are several Office of Community Planning and Development programs



## AUDIT PLAN

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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.