

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT  
OFFICE OF INSPECTOR GENERAL  
SALARIES AND EXPENSES

The following material discusses the scope of work, proposed staffing levels, budget estimates, and justification for the Office of Inspector General (OIG) for fiscal year 2011.

APPROPRIATION HIGHLIGHTS

The following table summarizes the funding sources and staffing levels.

|   | <u>Actual<br/>2009</u> | <u>Enacted<br/>2010</u><br>(Dollars in Thousands) | <u>Estimate<br/>2011</u> | <u>Increase +<br/>Decrease –<br/>2011 vs 2010</u> |
|---|------------------------|---|--------------------------|---|
| <u>Budget Authority</u>                 |                        |   |                          |   |
| Funds Available:                        |                        |   |                          |   |
| Budget Authority. ....                  | \$120,000              | \$125,000   | \$122,000                | -\$3,000  |
| Subtotal.....                           | 120,000                | 125,000   | 122,000                  | -3,000  |
| 2006 Disaster Assistance a/.....        | 378                    | 3   | 0                        | -3  |
| 2007 Disaster Assistance b/.....        | 6,221                  | 5,919   | 4,910                    | -1,009  |
| 2009 American Recovery c/.....          | <u>15,000</u>          | <u>14,900</u>                                     | <u>8,900</u>             | <u>-6,000</u>                                     |
| Subtotal.....                           | 139,700                | 145,822   | 135,810                  | -10,012   |
| Full-Time Permanent Appointments (EOY). | 650                    | 680   | 680                      | ...   |
| Full-Time Equivalents.....              | 650                    | 680   | 680                      | ...   |

a/ 2006 Emergency Supplemental, P.L. 109-234.

b/ 2007 Emergency Supplemental, P.L. 110-28.

c/ The American Recovery and Reinvestment Act of 2009 (Recovery Act), P.L. 111-5.

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In accordance with the requirements of Section 6(f)(1) of the Inspector General Act of 1978 (as amended), the HUD OIG submits the following information related to its requested budget for fiscal year 2011:

- The aggregate budget request for the operations of the HUD OIG is \$122,000,000.
- The portion of this amount needed for HUD OIG training is \$688,000. This amount fully funds HUD OIG training needs for fiscal year 2011.
- The amount for support of the Council of the Inspectors General on Integrity and Efficiency is \$292,800. This is 0.24 percent of the President's Budget.

The non-Disaster Assistance fiscal year 2011 estimate is \$122 million. This request is \$3 million lower than the fiscal year 2010 President's Budget. The fiscal year 2010 Enacted Budget included a \$5 million increase from the budget request to focus on FHA's new programs. In order to maintain these efforts, comply with this request and continue oversight of disaster funds OIG needs to be funded at \$122 million. During fiscal year 2006, OIG received Emergency Supplemental funds totaling \$9.0 million for operational costs associated with Hurricanes Katrina, Rita, and Wilma. During fiscal year 2007, OIG received Emergency Supplemental funds totaling \$7 million for operational costs associated with hurricanes Katrina and Rita. Those funds will be depleted and no new supplemental is expected to be approved. Consequently, the 30 FTEs and direct costs associated with disaster oversight will need to be funded with appropriated funding as in fiscal year 2010. Without the funding we can no longer maintain the vital work in the Gulf States.

The OIG developed a strategic plan with the primary goal of helping HUD resolve its major management challenges. The first strategic objective is to "*Contribute to the Reduction of Fraud in Single Family Lending.*" OIG has given priority to audits of Single Family loan origination abuses, rental assistance payment programs, and HUD fiscal systems. The overall objectives of OIG's planned audits in these areas are to aid HUD in ensuring that management reforms are effective and address Congressional and taxpayer concerns about program delivery and financial integrity. Detecting and preventing fraud, waste and abuse are integral components of this work. Approximately 15 percent of audits that were issued by the end of fiscal year 2008 were dedicated to Single Family Programs. As of March 31, 2009, approximately 13 percent of audits were dedicated to Single Family Programs. A second objective is to "*Improve HUD's Execution of Fiscal Responsibilities.*" The scope of efforts on this objective included evaluations of HUD's management of program delivery and financial and management systems. Audits completed by March 31, 2009 for fiscal year 2009 in all areas reported nearly \$1.7 billion in improper payments (ineligible costs, unsupported costs, and funds put to better use). A final strategic objective is to "*Reduce Erroneous Payments in Rental Assistance programs.*" All our Regional Office of Investigation offices (OI) initiated a Rental Assistance overpayment initiative during fiscal year 2006. In fiscal year 2009, multi-agency fraud operations were conducted by Regional OI staff targeting 24 troubled public housing authorities and/or multifamily projects. Fraud operations targeted criminal activity in the projects' Section 8 programs whose participants included tenants, landlords, housing managers and contractors. Budget justification and estimates follow.

### HUMAN CAPITAL

OIG is requesting a fiscal year 2011 level of 680 full-time equivalents (FTEs), same level as the 2010 President's Budget. Since we have received Supplemental Funding for conducting oversight of the \$23 billion relief aid given out in Community Planning and Development grants, we need to continue funding the fiscal year 2010 increased of the OIG staff. As of to date, we used these funds to hold our FTE level at 650 in fiscal year 2009. We need to maintain this funding to keep this level of effort and provide coverage and oversight of the more than \$26 billion being spent in the Gulf States and other regions impacted by natural disasters. In fiscal year 2008, we utilized approximately 40 FTEs on this effort. In addition, we received \$15 million from the American Recovery and Reinvestment Act of 2009. This funding is available until 2013. We will obligate approximately \$6 million this year in staffing and travel costs associated with new audits and investigations of stimulus grants and loans made by HUD.

We anticipate an increase of FHA-related investigations and audits. Until recently, FHA's market share remained quite low as conventional subprime loans were heavily marketed by lenders. The volume of single family FHA-insured loans tripled from \$59 billion in fiscal year 2007 to over \$180 billion in fiscal year 2008. The

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latest figures from Single Family market comparisons from October 2008 show that FHA's total endorsements have increased from 21 percent of the market in 2007 to 76 percent of the market, which includes both home sales and refinances. FHA's home sales' market share (excluding refinances) has increased from 6.4 percent to 23 percent during this time period. The task before the HUD OIG is a daunting one: addressing the elements of fraud that were involved in the collapse of the mortgage market; monitoring the roll-out of new FHA loan products in order to reduce exploitation of program vulnerabilities; and combating perpetrators of fraud, including those who have migrated from the subprime markets, who would exploit FHA loan programs.

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FUNDING BY OBJECT CLASS

The following table summarizes this request by object class.

|   | <u>ACTUAL<br/>2009</u> | <u>CURRENT<br/>ESTIMATE<br/>2010</u> | <u>ESTIMATE<br/>2011</u> | <u>INCREASE +<br/>DECREASE –<br/>2011 vs. 2010</u> |
|---|------------------------|--------------------------------------|--------------------------|--|
|   | (Dollars in Thousands) |                                      |                          |  |
| Personal Services.....                      | \$89,490               | \$94,490                             | \$91,490                 | -3,000   |
| Travel and Transportation of Persons.....   | 5,165                  | 5,165                                | 5,165                    | ...  |
| Transportation of Things.....               | 88                     | 88                                   | 88                       | ...  |
| Rent, Communications, and Utilities.....    | 6,928                  | 6,928                                | 6,928                    | ...  |
| Printing and Reproduction.....              | 47                     | 47                                   | 47                       | ...  |
| Other Services.....                         | 16,558                 | 16,558                               | 16,558                   | -  |
| Training.....                               | 688                    | 688                                  | 688                      | ...  |
| Supplies and Materials.....                 | 584                    | 584                                  | 584                      | ...  |
| Furniture and Equipment.....                | 402                    | 402                                  | 402                      | ...  |
| Insurance Claims and Indemnities.....       | <u>50</u>              | <u>50</u>                            | <u>50</u>                | ...  |
| Subtotal.....                               | 120,000                | 125,000                              | 122,000                  | -3,000   |
| 2006 Disaster Assistance P.L. 109-234.....  | 375                    | 3                                    | 0                        | -3   |
| 2007 Disaster Supplemental P.L. 110-28..... | 677                    | 1,009                                | 1,000                    | -9   |
| 2009 American Recovery P.L. 111-5.....      | 2,000                  | 6,000                                | 4,000                    | -2,000   |
| Total Obligations.....                      | 126,700                | 132,012                              | 127,000                  | -5,012   |

NOTE: The 2006 Emergency Supplemental Disaster Assistance, P.L. 109-234, provided \$9 million. The 2007 Emergency Supplemental Assistance, P.L. 110-28, provided \$7 million. The Recovery Act, P.L. 111-5, provides \$15 million.

CHANGES FROM FISCAL YEAR 2010 TO FISCAL YEAR 2011

Descriptions of the various object classes are provided below. Overall, Personal Services; Rent; Communications, and Utilities; Travel and Transportation of Persons; and Other Services object class categories reflect increases above fiscal year 2010, while all other object class categories remain about the same.

**Personal Services.** The fiscal year 2011 estimate of \$91.5 million reflects a decrease of \$3.0 million from fiscal year 2010. In fiscal year 2010, OIG received an additional \$5 million to focus on FHA efforts. The fiscal year 2011 request includes an increase for the 2011 pay raise, continuation of our commitment to the Gulf State oversight, and maintaining the additional 30 FTE requested in fiscal year 2010 to accomplish our FHA and Recovery Act responsibilities.

The fiscal year 2011 request includes an increase for the 2011 pay raise, continuation of our commitment to the Gulf State oversight, and adding 30 FTE to our FHA and Recovery Act responsibilities.

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**Travel and Transportation of Persons.** The OIG staff travels extensively to carry out their audit and investigative responsibilities. The Audit staff travels to program participants and contractor offices to conduct project, contract, and financial audits. Investigation staff requires extensive travel to interview witnesses and subjects of investigations, to examine records, and to gather evidence through surveillance and other law enforcement activities. In addition, funds are necessary for training travel to support our refocused investigation priorities and to send newly hired replacements to the Federal Law Enforcement Training Center (FLETC), IG Academy and other periodic in-house training. The fiscal year 2011 estimate of \$5.1 million is at the same level as fiscal year as fiscal year 2010.

**Transportation of Things.** This object class includes the cost to move household items when an employee is transferred from one permanent duty station to another. The fiscal year 2011 estimate of \$0.88 million is at the same level as fiscal year 2010.

**Rent, Communications and Utilities.** Funding in this object class include costs such as leased space, parking, security, rental equipment, communications, and utilities. The fiscal year 2011 estimate of \$6.9 million reflects the same level as fiscal year 2010.

**Printing and Reproduction.** Funding in this object class is for printing and reproduction services costs, and related composition and binding operations performed by or through the Government Printing Office. The OIG Semiannual Reports to Congress are covered under this classification. The fiscal year 2011 estimate of \$0.05 million remains at the same level as fiscal year 2010.

**Other Services.** A multitude of activities are funded under this object class, including professional training and development of OIG personnel, audit services, general support, and information technology maintenance and services. Audit services consist primarily of the cost of contracting for the audits of the FHA and Government National Mortgage Association (GNMA) financial statements. OIG has various Interagency Agreements, such as an agreement with the Department of Justice (DOJ) for access to the National Crime Information Center data related to OIG investigative activities. The OI and OA are also obligated to support the Council of the Inspector General on Integrity and Efficiency (CIGIE) which for the second time will be assessing a fee equaling 0.24 percent of member offices' annual appropriations to support their operations. OIG has agreements with the Bureau of Public Debt for personnel, contracting/procurement services, and investigative background checks of OIG staff, the National Finance Center for payroll processing, and other smaller agreements.

Funds from this object class are also used for the purchase of goods and services where source identity or investigative techniques require confidentiality, such as undercover investigations.

Other funds in this object class include amounts for furniture and equipment maintenance, visual arts services, and other miscellaneous contractual requirements.

The fiscal year 2011 estimate of \$16.6 million is at the same level fiscal year 2010 to continue enhancements to OIG Investigation and Audit Management Tracking Systems and to provide additional security to meet OMB security requirements including encryption, monitoring and filtering tools, and reduction of the use of social security numbers and personal identification information.

**Training.** This object class includes all training for OIG staff. OIG plans to expend \$0.69 million for employee training, which is at the same level as fiscal year 2010.

**Supplies and Materials.** Funding under this category cover costs associated with the purchase of office supplies; training supplies; automation-related supplies; subscriptions to professional magazines, publications and research materials; ammunition; and other items that are generally consumed or expended within one year after purchase. The fiscal year 2011 estimate of \$0.6 million remains the same as fiscal year 2010.

**Furniture and Equipment.** This object class includes the purchase of furniture and fixtures, office equipment, and special equipment/weapons for law enforcement investigative activities. The fiscal year 2011 estimate of \$0.4 million remains the same as fiscal year 2010.

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**Insurance Claims and Indemnities.** This category provides for payments made for or related to the repair or replacement of property, including loss by theft, or for personal injury deemed by law or regulation to be the responsibility of the OIG. This normally includes loss or damage to personal property being used for the benefit of the government. The fiscal year 2011 estimate of \$0.05 million remains the same as fiscal year 2010.

## **SCOPE OF ACTIVITY**

The HUD Office of Inspector General is one of the original 12 Offices of Inspectors General designated by the Inspector General Act of 1978. The OIG oversees HUD's programs and operations with its audit and investigative personnel. While organizationally located within the Department, the OIG receives a separate appropriation for its activities. The OIG mission is to provide independent and objective reporting to the Secretary and to Congress.

During the agency and the OMB budget processes, OMB requires OIG to work with the Department because the HUD Secretary approves the appropriate level of funding and FTEs for the Department overall, as well as for the specific program and operational needs within the Department, which includes OIG.

The OIG is the Department's primary source for obtaining independent reviews of the integrity, efficiency, and effectiveness of Departmental programs and operations. In directing these review activities, the OIG emphasizes both the detection and prevention aspects of these services within a comprehensive Departmental effort to attain improved management effectiveness. OIG also has authority to inquire into all program and administrative activities of the Department, and the related activities of all parties performing under contracts, grants, or other agreements with the Department. These inquiries may be in the form of audits, investigations, inspection and evaluations or other such reviews, as appropriate.

## **PERFORMANCE**

As of March 31, 2009, OIG's results totaled nearly \$1.913 billion, which includes questioned costs identified in Audit Reports, investigative recoveries/receivables, and recommendations for funds put to better use. As a result, OIG exceeded its return on investment goal of 8 to 1.

OIG has developed a Strategic Plan that further refines performance measures and identifies outputs that will define a significant portion of OIG workload that is not set by legislation, Congressional, OMB, or citizen requests.

## **WORKLOAD**

The principal workload of the OIG consists of audit, investigative, and inspections and evaluations reviews. The Inspector General Act of 1978 and amendments of 1988 require the IG to conduct, supervise, coordinate, and provide policy direction for audits and investigations relating to Departmental programs and operations, and promote economy and efficiency in the administration of HUD programs and operations, and to prevent and detect waste, fraud, and abuse.

In order to harmonize OIG efforts and achieve the maximum output from OIG resources, members of the Audit and Investigation staff meet with HUD program officials monthly to discuss issues of concern, including those areas where OIG believes weaknesses exist. In addition, these OIG offices meet with HUD's Regional directors to address areas of mutual concern. OIG is working with top program officials to develop a strategy to address and ultimately reduce fraud in HUD programs and operations when emphasis is placed on communication and cooperation by working together to address weaknesses.

### **1. IMMEDIATE OFFICE OF THE INSPECTOR GENERAL**

The Inspector General reports directly to the Secretary and Congress, and has authority to inquire into all program and administrative activities of the Department. Inquiries are designed to provide constructive advice for Departmental management, to promote economy and efficiency in the administration of HUD programs, and to prevent and detect waste, fraud, and abuse in HUD programs and operations.

### **2. OFFICE OF LEGAL COUNSEL**

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The OIG Office of Legal Counsel (OLC) is responsible for providing the full range of independent professional legal services and advice with respect to the formulation, coordination, revision, and execution of the OIG program. Specifically, OLC Attorneys:

- Render oral and written legal opinions and provide legal advice to the IG, OIG staff, and Auditors and Special Agents;
- Review and comment on existing or proposed legislation and regulations;
- Draft proposed legislation and regulations in conjunction with OIG audit and investigative activities;
- Materially assist in the preparation and prosecution of criminal and/or civil fraud cases referred by or affecting the OIG;
- Oversee and assist in the preparation, issuance, and enforcement of subpoenas required during audits, investigations, or other activities;
- Conduct the litigation of Merit Systems Protection Board proceedings initiated by the OIG staff as a consequence of administrative decisions by OIG managers;
- Represent the OIG staff at legal proceedings related to audits, investigations, or other OIG activities;
- Represent the IG and OIG staff in discussions with other components of the Department;
- Provide legal advice on requests received by OIG pertaining to the Freedom of Information Act (FOIA) and the Privacy Act;
- Provide other legal assistance to the IG as requested; and provide responses to over 300 FOIA, privacy act and other requests for information annually;
- Process and decide requests for information under the Touhy House-keeping regulation;
- Assist all Special Agents in litigation against the OIG in Federal Court; and
- Process claims for and against the OIG.

### 3. OFFICE OF AUDIT (OA)

#### a. Employment and Responsibilities

The Office of Audit plans and conducts reviews of Departmental activities and operations that include: (1) Headquarters programs and operations, and the activities of approximately 80 HUD field offices; (2) hundreds of HUD programs and initiatives; and (3) thousands of contractors and program participants doing business with the Department. Auditors assigned to four Headquarters Divisions, eight Regional offices, and the Gulf Coast Region, totaling 34 offices nationwide, are responsible for conducting a variety of audits in all HUD program areas. HUD's net outlays were \$45.1 billion in fiscal year 2008 and \$21.9 billion as of March 2009. In terms of Federal exposure, HUD is one of the largest Federal agencies because of FHA insurance activities. As of March 2009, FHA currently has 4.9 million insured Single Family mortgages and 11,845 insured Multifamily projects in its portfolio with an outstanding mortgage insurance of approximately \$634 billion. In addition, Ginnie Mae, a wholly owned government corporation with HUD, guaranteed \$168 billion in mortgage-backed securities during the first 6 months (October thru March) during fiscal year 2009, which is an increase from \$99 billion in fiscal year 2008. In addition, in fiscal year 2008, HUD received \$4 billion for the Neighborhood Stabilization Program (NSP), and an additional \$13.6 billion in the American Recovery and Reinvestment Act of 2009. Approximately 45,000 organizations deliver HUD programs nationwide. The Department also incurs operating expenses for approximately 8,686 employees, (as of May 2009)

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excluding the OIG. OA's significant workload is generally divided into four primary categories: Performance Audits, Information System Audits, Financial Audits, and Advisory and Assistance Services. These will be discussed further in the workload section.

### b. Workload

**Overview.** The Recovery Act states that every taxpayer dollar spent on our economic recovery must be subject to unprecedented levels of transparency and accountability. Five crucial objectives for Federal agencies have been identified to ensure that: (1) Recovery funds are awarded and distributed in a prompt, fair, and reasonable manner; (2) the recipients and uses of all recovery funds are transparent to the public, and that the public benefits of these funds are reported clearly, accurately, and in a timely manner; (3) Recovery funds are used for authorized purposes and every step is taken to prevent instances of fraud, waste, error, and abuse; (4) projects funded under the recovery legislation avoid unnecessary delays and cost overruns; and (5) programs meet specific goals and targets, and contribute to improved performance on broad economic indicators. At the Act's direction, Federal agencies receiving Recovery Act funds are taking critical steps to establish rigorous internal controls, oversight mechanisms, and other approaches to meet the accountability objectives of the Act. OIG will continue to have a significant role in assisting the department to reach these requirements. Both the OA and the GAO have identified specific HUD challenges. The size and diversity of HUD programs has led to staffing and information systems challenges and resulted in a variety of internal control weaknesses identified by OIG audits. These weaknesses are compounded by the fact that the majority of HUD's critical functions are being performed by outside entities.

To provide the best possible services to HUD management and Congress, OA will: (1) emphasize the review and oversight of legislative, regulatory and policy changes resulting from an ever changing HUD and program environment; (2) pursue ways to improve existing methods or suggest new methods of conducting HUD's business; and (3) focus greater attention on those major audit areas that will improve HUD's stewardship of Federal financial resources. Key efforts will include financial audits, information systems and performance reviews, and continued emphasis on combating fraud, waste and mismanagement in HUD programs. In addition, as new HUD programs are added and existing programs expanded, as with the: (1) passage of the Recovery Act, (2) passage of the Housing and Economic Recovery Act which contained provisions to modernize FHA and establish the Hope for Homeowners and Neighborhood Stabilization Programs and expanded the use of Home Equity Conversion Mortgage (HECM) reverse mortgages; (3) increased pooling of Ginnie Mae mortgaged-backed securities, and (4) continued work in the Gulf Coast, a huge increase in workload for the OIG is expected commensurate with an increase in fraud and abuse within HUD's programs.

**Review and Oversight.** The Department continues to be challenged within current resources constraints to cope with organizational and programmatic changes that have fundamentally affected the way it conducts business, which has increased the OA workload significantly. Major changes have been made in the manner in which the FHA conducts its business. From an organizational standpoint, past reductions in the level of program staff along with new program demands placed on HUD have resulted in greater reliance being placed on OIG audit work to assure that lenders, grantees, contractors, and other program participants are meeting program requirements and spending funds efficiently and effectively. OA plans to review HUD programs consistent with the goals to address the foreclosure crisis, help homeless families and individuals achieve housing stability, improve the safety and quality of public housing, and make affordable rental housing available for more low-income households. With the levels in HUD program staffs being strained to keep up with increasing program activity, our reviews of regulatory and policy changes have taken on greater importance. As a result, OA focuses its efforts on evaluating the features and objectives of various program operations with the aim of recommending ways to maximize results with Federal expenditures.

**Audit Emphasis.** OA's work has shown that some of the most vulnerable program and operational areas in the Department include:

- FHA's ability and capacity to oversee newly generated business, the timely development and implementation of information systems;
- single family loan origination and property disposition;
- erroneous payments in HUD's low-income housing assistance programs;
- contract and grant administration;

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- PHA management and operations: particularly the Section 8 voucher program; enforcement of program rules and regulations, including an increased emphasis on violations of housing quality standards; and
- the effective use of HUD’s human capital.

Also, the OA has a responsibility to ensure that Recovery funds distributed to the agency are spent in accordance with legal and administrative requirements, and that the agency meets accountability objectives defined by OMB.

The following are some of our traditional workload measurements for the 6 months ending March 30, 2009.

- Internal Audit Reports Issued.....13
- External Audit Reports Issued .....54
- Collections from Audit Activities.....\$144 million
- Questioned Costs on Audits Issued.....\$110.9 million
- Recommendations that Funds be put to Better Use .....\$1.639 billion

OA’s strategy is to prioritize audit assignments that will: (1) assess the Department’s efforts to improve HUD’s management and internal controls to ensure program compliance and resolve audit issues; (2) be responsive to audit requests from Congressional Committees; (3) continue assessing Departmental human resource management; (4) improve the integrity of single family mortgage insurance programs and deter mortgage fraud; (5) assess Section 8 program administration; (6) complete a timely and comprehensive audit of HUD’s annual financial statements; (7) recommend actions that maximize electronic methods for identifying program fraud and abuse in low-income housing programs; and (8) review Community Planning and Development (CPD) grantees, with emphasis on the CDBG program, particularly the Neighborhood Stabilization Program, and non-profit grantees.

Our potential audit universe continues to expand with the growth of HUD activity. Additionally, Congress has increasingly tasked the OA with unfunded legislated audit work. Much of the additional work in the last 3 fiscal years was in response to Congressional requests. For example, the Appropriations Committee tasked OIG with audit responsibility for the September 11, 2001, terrorist attacks and for the approximate \$26.4 billion in disaster assistance provided to the Gulf Coast area as a result of hurricanes Katrina, Rita, and Wilma. The task involves reporting every 6 months for both September 11, 2001 attacks as well as for the progress achieved by HUD in assisting the Gulf Coast area. Additionally, OA increased audits on PHA’s administration of the Section 8 Voucher program based on Congressional requests. Further, the Department of Defense Appropriation passed Public Law 110-116, which appropriated \$3 billion for ‘Department of Housing and Urban Development – Community Planning and Development Fund’, to remain available until expended, to enable the Secretary of Housing and Development to make a grant or grants to the State of Louisiana solely for the purpose of covering costs associated with otherwise uncompensated but eligible claims that were filed on or before July 31, 2007, under the Road Home program administered by the State in accordance with plans approved by the Secretary. In line with OA’s strategy for evaluating the practicality and comprehensiveness of the agency’s spending plan and for ensuring that the agency’s Recovery programs comply with established Program Plans, the Office of Audit has also delegated resources to conducting reviews of HUD’s Front End Risk Assessments and grantee capacity reviews in relation to the Recovery Act. As HUD expends Recovery Act funds, OA will focus on key financial decisions and processes used by HUD to disperse and control Recovery Act funding. This includes conducting audits involving fund allocations and grantee capacity; evaluating front end risk assessments on both HUD and funding recipients, and performing audits of HUD systems controls and effectiveness. OA will also liaise with Federal and state prosecutors, as well as law enforcement counterparts enlisting them to participate in joint efforts to combat fraud in HUD programs.

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).

The OIG audit plan targets the following major areas of emphasis where the work can be of greatest value to the Department and Congress:

- Performance Audits are reviews of the efficiency and effectiveness of selected HUD management and program operations. These audits are directed at determining the adequacy of management controls and minimizing program risks. These audits are focused on assuring that housing assistance programs are handled efficiently and effectively. Performance audits also include reviews of the records and performance of those organizations receiving financial assistance or benefits from the Department, such as various state and local government grant recipients and sub-recipients, multifamily owners and management agents of insured and assisted projects, mortgage lenders and borrowers, contractors, public housing authorities, and non-profit entities. Performance audits are a means of ascertaining the degree of compliance with applicable statutes, regulations, and agreements under which Federal funds and other benefits are made available. The audits also examine the appropriateness of the disposition of funds granted, loaned, or claimed, and/or the adequacy of participant performance and results. A major part of the OA staff time is spent conducting audits of high-risk programs and program participants. With a multitude of diverse programs in the Department, there are potentially thousands of audit entities to be reviewed. As each of these assignments is planned, OA will maintain its focus on our strategic plan and on areas of major challenge to the HUD. Audit planning is a continuing process that focuses resources on the priorities identified in OIG's strategic plan and areas of greatest current benefit to our customers. 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, the 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. Planning for external audits is subject to numerous factors such as, complaints, request from HUD and Congress, and media attention, all of which cannot be predicted or anticipated. Therefore, the planning of external audits is intended to be flexible 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 OIG Strategic Plan and areas of interest to OIG stakeholders, particularly Congress. With this in mind, the following types of external audits have been identified as priority areas during this planning cycle. OIG audit managers will focus their audit resources in the following areas.
  - Public and Indian Housing. The Low-Income Program serves 1.2 million households. The Section 8 Voucher Program serves over 1.8 million households. Of immediate concern is the overpayment of Section 8 housing assistance payments since this area is highlighted as part of Goal #1 in the OIG Strategic Plan and is a Congressional priority. As part of an overall OIG initiative, tenant eligibility and accuracy of rental assistance payments will be the audit focus in this program area. In addition, the quality of housing and the cost of administering these programs continue to be a concern. Also, we plan to continue to conduct audits of PHA development activities carried out by affiliated non-profit entities. HUD will also be improving thousands of public housing units for lower-income residents, including the elderly and disabled, that will be developed and modernized as a result of approximately \$4 billion in grants from the Recovery Act. Most of the grant money will be devoted to making the units more energy efficient, thus decreasing utility costs to the resident's.
  - Single Family Audits. Single Family FHA-insured loans increased 150 percent (endorsements from Oct 2008 – March 2009) from \$365 billion to over \$577 billion as of March 2008 and March 2009 respectively and market share increase from 25 to 67 percent in fiscal year 2009 in terms of endorsement volume. FHA's Single Family lender audits will continue to be a priority due to the program's significant growth and 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 risks indicators. In addition to being a part of Goal #1 in the OIG Strategic Plan, there continues to be Congressional interest in our audits of the Single Family program. Our work will also focus on internal operations of the program and the areas impacted by recent legislative reforms.
  - Multifamily Project Audits. Given the continued risks associated with Multifamily, audits of multifamily project operations will continue to be a priority. The focus of these audits will be with the misuse of project operating funds, also known as equity skimming.

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- CPD Grantees. Continued concerns over the capacity of entities receiving funding from HUD programs require that audits of such activities be given priority. Congress appropriated \$1.93 billion in fiscal year 2009 for the Neighborhood Stabilization Program and another \$13.61 billion from the Recovery Act. HUD's funding often goes to non-profit 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 CPD programs including CDBG, HOME, Entitlement, Special Purpose, and Supportive Housing Grants. Based on referrals from HUD program staff, OA will give priority attention to auditing non-profits. For those selected, we will evaluate the control systems in place, especially for sub-recipients of HUD grant funds, to determine whether these controls provide the review and oversight necessary to ensure funds are spent on eligible activities and put to good use.
- Hurricane Recovery Audits. Since Hurricanes Katrina, Rita, and Wilma struck the Gulf Coast, the OIG has established an audit presence in the disaster area to combat fraud, waste, and abuse. The OA has established an office, developed an audit plan, and begun reviews in the disaster area. During this past reporting period, OIG issued two audits of the supplemental funding resulting in findings of questioned costs of more than \$7.5 million. The audits completed as of March 31, 2009, relate to work conducted at the Housing Authority of New Orleans which is currently under receivership.
- Information System Audits. The work of the Information Systems (IS) Audits Division has become increasingly important as the Department expands the use of information technology for program delivery with a reduced staff. The areas of focus are financial and systems audits, consultation on system controls, and technical assistance. A considerable portion of the IS work is devoted to supporting mandated Financial Statement Audits by reviewing the general and application controls of automated financial systems per GAO's Federal Information System Controls Audit Manual (FISCAM). Another IS audit priority involves assessing HUD's entity wide information security policies and plans, including security management structure and the roles and responsibilities of security personnel. This work, mandated under the FISMA, involves more extensive testing of security measures. The IS Audit Division makes recommendations to assist the Department in establishing controls and standards for error prevention; efficient and effective operations; and deterrents to fraud or abuse during costly system development efforts. The IS Audits Division also provides technical support to other OIG Auditors and Investigators. This work includes retrieving and analyzing data from HUD systems, advising field auditors on automated tools for use in their work, and obtaining computer-based evidence for investigative purposes. Work in this area has increased significantly because of growth in e-business and the expanding use of computer assisted audit techniques in completing audits.
- Financial Audits include financial statement audits of FHA, Ginnie Mae, and HUD. The objective of these audits is to provide reasonable assurance that the entity's financial statements are free of material misstatements and are presented in accordance with generally accepted accounting principles. The OA will continue to complete the consolidated financial audit of the Department using its own staff resources. This audit has enabled the OIG to better grasp the major problems facing the Department, thereby enabling us to target its remaining audit resources on areas of greatest risk. OIG's financial audits help improve financial performance and develop reliable financial management systems. Another benefit of the financial audit is that it enables OA to evaluate internal controls as a measure of HUD's progress in identifying and solving its management challenges. The Financial Audits Division conducts this audit with staff assistance from all of the OIG Regional offices and the IS Audit Division. Additionally, OA contracts with independent public accountants to assist in the audits of the financial statements of both FHA and the Ginnie Mae. The consolidated financial statement audit requires a major commitment of staff, training, contracting, travel resources, and requires the effort of 23 full-time employees.
- Civil Fraud Initiative. Due to the significant increase in mortgage and white collar cases, the DOJ is promoting civil fraud initiatives. Thus we have decided to organizationally reassign 16 forensic auditors from the Office of Investigation to the Office of Audit. Civil cases include (but are not limited to) double damages suits (equity skimming) under 12 USC S1715z-4a and false claims under 31 USC S3729. The double damages and treble damages provisions available to HUD make civil proceeds an effecting deterrent. Administration sanctions include debarments, suspensions, limited denials of participation, program fraud civil remedy proceeds, and civil monetary penalty assessments.

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- Advisory and Assistance Services provided to the Department include: (a) input to the legislative and regulatory processes; (b) technical advice and assistance to HUD management on programs and systems; (c) program research; (d) providing guidance to accounting firms performing non-Federal audits of HUD program activities; (e) audit finding resolution; (f) assistance to U.S. Attorneys in developing criminal and civil cases for prosecution; (g) reviews of Hotline and other types of complaints; (h) joint efforts with Investigation or program officials in detecting or preventing fraud; and (i) responses to requests for information or assistance from OIG's stakeholders, including the OMB and Congress.

### 4. OFFICE OF INVESTIGATION (OI)

#### a. Employment and Responsibilities

OI's Special Agents are assigned to five Headquarters Divisions, 13 Regional Offices, including the Gulf Coast Region, and 39 field offices (including the Regional sites) located nationwide.

With the introduction of various new FHA programs and unprecedented increase in the number of new and refinanced FHA loans, OI continues to conduct and expand its mortgage fraud initiatives. This includes full-time participation in FBI's National Mortgage Team at Headquarters level, participation in Mortgage Fraud Working Groups and task forces in over 40 locations throughout the country. OI also continues aggressive education, outreach and enforcement efforts related to the Housing and Economic Reform Act, Neighborhood Stabilization Program (NSP), HECM reverse mortgages, and GNMA mortgage-backed securities. HUD OI continues to be a leading expert in addressing the critical conditions currently affecting the mortgage industry.

In addition to mortgage related issues, HUD OI is also committed to using its resources to combat fraud in HUD's Rental Assistance Program, including corruption in the administration of public housing authorities, fraud against elderly and disabled public housing programs, Fugitive Felon Initiatives in public housing, missing and exploited children data matches, and sex offender investigations.

All Headquarters' Divisions and Regional offices are managed and directed by the Assistant Inspector General for Investigation (AIGI). Two Deputy Assistant Inspectors General for Investigation (DAIGI) oversee the daily operations of all investigation activity. The DAIGI for Field Operations oversees the 13 Regional Offices whose approximately 180 investigators conduct criminal investigations into all HUD related programs. The Field Operations DAIGI also oversees the Gulf Coast Region which is primarily responsible for disaster-related program fraud schemes in the Gulf Coast states. The DAIGI for Programs oversees the Criminal Investigations Division (CID), the Special Investigations Division (SID), the Investigative Support Division (ISD), and the Inspections and Evaluations Division (I&E). CID is responsible for overseeing the investigative program fraud initiatives implemented by the Regional offices. SID is responsible for conducting sensitive internal affairs investigations, HUD Senior management misconduct investigations, reviews, and major program fraud investigations as assigned by the AIGI. ISD is responsible for OI productivity reports, budget matters, training, equipment, and field support.

The I&E Division concentrates on conducting programmatic reviews identified through: (a) fraud prevention meetings with HUD Program Officials; (b) HUD OIG Hotline Referrals, (c) Congressional inquiries, and (d) internal management focus. These reviews test the efficiency of HUD programs and, where necessary, recommend further audit work, criminal investigations or department resolution to systemic problems. The I&E Division will conduct reviews of all Hurricane Disaster Relief programs that are not reviewed by the Office of Audit.

#### b. Workload

OIG's Semiannual Reports to Congress continue to show significant results from its investigative efforts. The following is a summary of investigative results from October 1, 2008 through March 31, 2009.

INVESTIGATIVE RESULTS

| ARRESTS <sup>a/</sup> | INDICTMENTS/INFORMATIONS | CONVICTIONS/<br>PLEAS/PRE-<br>TRIAL<br>DIVERSIONS | INVESTIGATIVE<br>RECEIVABLES/<br>RECOVERIES <sup>b/</sup> | ADMINISTRATIVE<br>SANCTIONS | CIVIL ACTIONS | TOTAL<br>ENFORCEMENT<br>ACTIONS |
|-----------------------|--------------------------|---|---|-----------------------------|---------------|---------------------------------|
| 771                   | 561                      | 414   | \$91,209,379  | 616                         | 52            | 2,414                           |

a/ Included in the arrests is our focus on the nationwide Fugitive Felon Initiative.

b/ Receivables and recoveries, paid to the Department of Justice and collected by that agency, are based on the total dollar value of: (a) criminal cases--the amount of restitution, criminal fines, and/or special assessments based on a criminal judgment or established through a pretrial diversion agreement; (b) civil cases--the amount of damages, penalties, and/or forfeitures resulting from judgments issued by any court (Federal, State, local, military, or foreign government) in favor of the U.S. Government or the amount of funds to be repaid to the U.S. Government based on any negotiated settlements by a prosecuting authority or the amount of any assessments and/or penalties imposed, based on actions brought under the Program Civil Fraud Remedy Act, civil money penalties, or other agency-specific civil litigation authority, or settlement agreements negotiated by the agency while proceeding under any of these authorities; and (c) voluntary repayments--the amount of funds repaid on a voluntary basis or funds repaid based on an agency's--administrative processes by a subject of an OIG investigation or the value of official property recovered by an OIG during an investigation before prosecution action is taken, any of which result from a case in which an OIG has an active investigative role.

These same results by program are:

| <u>Investigative Area</u>          | <u>Total Enforcement Actions</u> |
|------------------------------------|----------------------------------|
| Single Family Mortgage             | 434                              |
| Public and Indian Housing          | 1,513                            |
| FHA Multi Family                   | 330                              |
| Community Planning and Development | 115                              |
| Other/GNMA                         | 22                               |
| Total                              | 2,414                            |

The Gulf Coast Region's results in hurricane-related HUD program fraud for 1st Semiannual Period of fiscal year 2009 are listed below. As a result, we expect an increase in fraud activity in this part of the country similar to what occurred following the events of September 11, 2001.

| ARRESTS | INDICTMENTS/INFORMATIONS | CONVICTIONS/<br>PLEAS/PRE-<br>TRIAL<br>DIVERSIONS | ADMINISTRATIVE<br>ACTIONS | INVESTIGATIVE<br>RECEIVABLES/<br>RECOVERIES | FUNDS PUT TO<br>BETTER USE |
|---------|--------------------------|---|---------------------------|---|----------------------------|
| 31      | 31                       | 23  | 47                        | \$1,742,724                                 | \$37,754,132               |

## Office of Inspector General

The OIG strives to eliminate material weaknesses in HUD programs. For example, OI prepares Systemic Implications Reports (SIRs) resulting from I&E and Regional office reviews that identify weaknesses that surface during the course of criminal, civil, or administrative investigations. SIRs are submitted to the appropriate HUD program office and provide program officials with sufficient information to determine whether changes in HUD program rules or regulations are required.

The OIG focuses its efforts on assisting HUD in ensuring that management reforms are effective, and addressing Congressional and taxpayer concerns about program delivery and financial integrity. Detecting and preventing waste, fraud, and abuse are integral components of this work. The OIG's strategic plan addresses the Department's Major Management Challenges as defined in their strategic plan emphasizing the Government Accountability Office (GAO) high-risk programs and the material weaknesses and reportable conditions in the financial statements. The OIG believes that concentrating on these areas will contribute to the improvement of HUD's financial management systems, and reduce abuse in the rental assistance and FHA mortgage programs. OIG efforts in these two housing programs were instrumental in having them removed from GAO's high-risk programs.

Governed by the OIG Strategic Plan, OI continues to aggressively pursue fraud in the FHA Single Family mortgage and rental assistance program areas. During the first 6 months of fiscal year 2009, OI conducted investigations in these areas resulting in 434 total enforcement actions (including judicial and administrative actions). In addition, the OI conducted investigations into CPD fraud, troubled PHAs, and FHA Multifamily equity skimming which resulted in 445 enforcement actions (including judicial and administrative actions). All investigations aim to identify and prosecute abusers of HUD programs for violations of criminal statutes, identify and recover Federal funds, deter others from committing illegal acts against HUD, and restore public confidence in the integrity of HUD programs. OI continue to maintain a close working relationship with the FBI at both the Headquarters and Regional and Field Office levels. As noted, we have assigned a full-time investigative member to the FBI National Mortgage Team, and participate in FBI Mortgage Fraud Task Forces around the country. OI was also a major partner in the FBI's successful recent "Malicious Mortgage Takedown" effort targeting mortgage fraud, which resulted in the arrest or charging of hundreds of mortgage fraud suspects. OI also works closely with the FBI, as well as other law enforcement agencies, both state and Federal, on public corruption investigations involving HUD program and grant funds.

Financial fraud investigations involve complex financial schemes perpetrated in an automated environment by unscrupulous individuals. OI's investigations involve money laundering and the use of numerous bank accounts to move money. In order to adequately address the challenges of collecting evidence, building link analysis, and data mining HUD systems, the OIG established a forensic and data retrieval capability, which will serve the needs of both the Offices of Audit and Investigation. OI's Computer Forensic Section provides technology assistance and computer forensic support to Special Agents conducting complex fraud investigations that frequently require the search, seizure, and evaluation of electronic evidence. Because of our continuing need for financial intelligence, OIG has detailed a Special Agent on a full-time basis to the Department of the Treasury, Financial Crimes Enforcement Network (FINCEN). This facilitates and expedites the OIG's requests to FINCEN for financial information relative to money laundering, financial fraud investigations, and link analysis of entities, events, and funds.

### c. Investigations' Program Fraud Initiatives

The Office of Investigation's program fraud initiatives compliment the Department's Management Challenges. These strategies target the following major areas of emphasis where the work can be of greatest value to the Department and Congress:

- Single Family Mortgage Fraud

With the recent meltdown of the subprime and Alternate-A mortgage market the severe negative impact resulting from ever increasing home foreclosures, and the dramatic resurgence in FHA lending, OIG faces major challenges. Increases in FHA's loan limits, the introduction of various

measures, such as FHA Modernization, and Hope for Homeowners and other loan modification programs, and the increase in such products as HECMs (reverse mortgages), FHA's program are at high risk of fraud, waste and abuse. Fraud schemes such as foreclosure fraud, reverse mortgage fraud, mortgage backed securities fraud, and intentional defaults (i.e., encouragement from lenders and lender associates to skip payments) to qualify for FHA programs, offer new investigative and audit challenges to be addressed.

For fiscal years 2010 and 2011, FHA Single Family mortgage fraud will continue to be an investigative priority. Our work will focus on various frauds perpetrated by mortgage companies and brokers, title companies, loan officers, real estate agents and brokers, closing attorneys, appraisers, builders, and non-profit entities. These groups, committed to taking advantage of FHA programs through a variety of schemes, submit or cause to be submitted fraudulent loan applications, appraisals, and other falsified documents and use straw-buyers, forgers, equity skimmers, and co-conspirators to engage in extensive fraud schemes. The OIG will expand investigative efforts to include the filing of false bankruptcy petitions and violations of the Real Estate Settlement and Procedures Act (RESPA). The OIG will expand its efforts to include fraud related to the NSP, GNMA mortgage-backed securities fraud, HECM frauds that prey on the elderly and foreclosure fraud, as well as such fundamental fraud schemes as inflated evaluations, false income and employment verification, and kickbacks.

The OI still works closely with our primary law enforcement partner, the FBI, coordinating initiatives, training, and planning within our Mortgage Fraud Task Forces. FHA originations continue to increase at an unforeseen pace and we expect a corresponding increase in our case load. Investigative efforts on Single Family cases from October 1, 2007, through September 30, 2008, resulted in 800 judicial and administrative actions, \$163,040,359 in investigative recoveries, and \$37,784,625 in funds put to better use.

Included in OI's efforts to address FHA mortgage fraud is: a) full-time participation in FBI's National Mortgage Team at Headquarters level; b) participation in Mortgage Fraud Working Groups in Washington, DC, New York, Miami, and participation in mortgage fraud task forces in over 40 locations throughout the country (some of these task forces work jointly with the FBI); c) outreach initiatives with mortgage industry professional groups, such as MBA; d) formation of supervisory internal working groups to educate agents on new and forthcoming developments in the mortgage arena and help develop strategies to combat fraud; and data mining and mapping of HUD/FHA data to detect fraud patterns and trends.

- Low-Income Housing Assistance

OI receives, through cooperative planning with the Department, referrals from the Rental Housing Integrity Improvement Program (RHIIIP). In support of the Department's RHIIIP, OI initiated a Rental Assistance Fraud Initiative. This initiative uses extensive data matching and data mining efforts from the Department's Enterprise Income Verification program (EIV). The EIV essentially matches income data provided by respective State wage-based agencies with tenant income records. This partnership between the Department's RHIIIP and the OI Rental Assistance Fraud Initiative has identified hundreds of referrals for criminal investigation, evictions, and the recovery of millions of dollars of program funds. OI Special Agents in charge of all 12 Regions continue to make Section 8 rental assistance fraud, committed by the tenant, the Section 8 administrator, management companies, or PHA employees, an investigative priority. An integral part of this initiative is an on-going outreach effort by OIG personnel, including the Inspector General and others from Headquarters, to meet with Executive Directors of housing authorities, provide training seminars for the identification of fraud, and develop liaison for referrals. In addition, the Inspector General and other OIG staff have accepted invitations to speak and give training sessions for the National Association of Housing and Redevelopment Officials, the Public Housing Authorities Directors Association, and the Association of State Inspectors General. This very successful grassroots approach has been fully embraced by the housing industry.

Incorporated into the HUD OIG Rental Assistance Fraud Initiative is the partnerships established with the DOJ, the National Center for Missing and Exploited Children, and the liaison with State Law enforcement to use sex offender data matching.

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The use of the DOJ and State's databases to locate fugitive felons in HUD assisted living projects is based on Section 903 of Public Law 104-193, signed into law in 1996, is titled "Elimination of Housing Assistance with Respect to Fugitive Felons and Probation and Parole Violators." This law allows for the immediate termination of tenancy of a public housing tenant if the tenant is fleeing to avoid prosecution or confinement after conviction for a felony, or is violating a condition of parole or probation imposed under Federal or State law. The law also authorizes the exchange of information with law enforcement agencies to allow for data matches. Since inception of the Fugitive Felon Initiative, OI has opened 799 cases and closed 768 cases. Over 8,300 arrests were made by OI and other Federal, State, and local law enforcement agencies. During fiscal year 2007, there were over 1,200 arrests nationally. Many of these arrests were made with the U.S. Marshals Service special enforcement operation known nationally as "Operation Falcon."

In conjunction with our rental assistance overpayments initiative, OI has matched National Center for Missing and Exploited Children (NCMEC) data with rental assistance information to assist in identifying missing children. OI is an active member of the Federal Agency Taskforce on Missing and Exploited Children.

A major element of OI's Rental Fraud initiative is the conduct of sex offender initiatives to identify sex offenders in public housing which is funded by Federal assistance housing programs. This initiative will identify and remove registered sex offenders that are benefiting from Federal housing assistance programs that they are not eligible to receive. Since inception of the program 40 sex offenders were arrested, 14 indicted, and 53 evicted from public housing.

OI's continued involvement in these new initiatives is planned for fiscal years 2010 and 2011.

- Public Corruption in HUD Grant Programs and Housing Management Entities

During fiscal years 2007 and 2008, OI developed significant investigations that uncovered public corruption in the management of housing projects as well as the administration of grant programs funded to state and local governments. As a result, OI is proactively targeting underperforming grantees and management entities to detect early signs of fraud and abuse in these HUD funded program areas. Working jointly with the Department to identify this corruption, OI has put in place a strategy to aggressively weed out the criminal element trying to take advantage of these tax dollars. Training has been established for all Special Agents that will assist them in their investigations. Each OI Regional office is tasked with targeting underperforming grantees and housing management entities to root out fraud operations by using the assets of the Department such as REAC and Multifamily Asset Management as well as enlisting the support other Federal and local law enforcement agencies.

OI is also closely monitoring the progress of the NSP, which provides \$3.9 billion in formula grants to local communities to address the problems associated with foreclosed and abandoned properties. The Recovery Act provided another \$2 billion in stimulus funds via competitive grants. Since this is a significant fund allocation processed in an unusually short timeframe, HUD and OIG consider this a high risk program with the potential for significant housing-related fraud and public corruption in the administration of the allocated funds.

- Disaster Recovery Program Fraud

The devastating damage caused by the 2005 hurricanes in the Gulf Coast Region overwhelmed OI's staffing levels and initiated a realignment of FTE from other Regions of the country. Congress appropriated \$17 billion of HUD CDBG Program funds to the Gulf Coast for redevelopment of housing, infrastructure, and economic development. Gulf Coast Action Plans to spend these dollars include individual assistance programs for homeowners and renters; contracts to redevelop the infrastructures of road, water, and power systems; and long-term redevelopment plans to invigorate the economy. At this time, the states have only implemented individual assistance plans. OI is now prepared for a protracted strategy to oversee initiatives to identify waste fraud and abuse of HUD CDBG program funds in contracting and procurement for years to come. Our experience in this area suggests that

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public corruption in state and local programs will be significant as contractors and politicians become tempted to take advantage of the funds for their own gain.

With Congress funding billions of dollars directed at Gulf Coast recovery from the 2005 hurricanes and the subsequent 2008 hurricanes totaling over \$26 billion, OI has established a leading role in law enforcement activities directed at combating fraud in government disaster-funded programs. Working jointly with the DOJ National Center for Disaster Fraud formerly known as the Hurricane Katrina Fraud Task Force, nationally and in Baton Rouge, Louisiana, OI has increased its staffing levels in all five hurricane ravaged states, as well as in headquarters.

A significant effort has been made in combating fraud in the states of Mississippi and Louisiana Homeowner's Compensation Programs which has been allocated approximately \$12.5 billion for this program and Disaster Voucher Programs. As stated earlier, OI invested considerable resources in setting up programs to detect and deter fraud with the States. Through education and training of the grantees and contractors including significant counter fraud and detection training, measures were put in place that are reaping considerable results in reducing waste, fraud and abuse in these programs. In the past fiscal year to the present, OI has worked a large inventory of criminal referrals from the Mississippi Homeownership and the Louisiana Road Home program. Working with the administrators of these grant programs, OI has made significant efforts in deterring and detecting fraudulent claims before they were disbursed, resulting in over \$11 million in recoveries and \$21 million in funds put to better use.

Public corruption and contract fraud in these HUD program funded areas is a problem in Gulf Coast recovery efforts. The use of Community Development Block Grants for both economic development and housing needs has caused OI to train for the early detection of fraud in underperforming grantees and owner/management companies. In addition, focus is being given to dishonest management in non-profit grantees. This initiative is generating a substantial number of long term resource intensive investigations that will continue to be a focus for this office in the years to come. To date, OI has opened over 500 investigations involving this type of grant fraud.

### d. Inspections and Evaluations

The use of inspections and evaluations allows the HUD OIG to more quickly review HUD programs to determine their compliance with policies and goals. The fiscal year 2008 I&E annual plan addresses both audit and investigative initiatives in the Gulf Coast recovery efforts, as well as OIG management concerns regarding other HUD programs. The Division participated in collaborative studies and reviews with HUD program staff in areas such as Fair Housing and Equal Opportunity, the Small Cities Community Development Block Grant Program, recertification of Multifamily Projects in the Gulf Coast, and the Pre-foreclosure Sales Program. Additionally, OI participates as a member of the Department of Justice National Procurement Fraud Task Force.

### e. Department of Justice and Department of Homeland Security Task Forces

During fiscal years 2010 and 2011, OIG will continue to work with the DOJ Joint Terrorism Task Forces (JTTF) in our role of first response during national disasters and assisting in uncovering terrorism and gang-related activity in public housing. Although our resources will not allow full-time participation in all JTTFs, OIG is actively engaged to the extent its resources will allow. OI will participate as resources permit in the DOJ Public Housing Safety Initiative as well as task force activities directed toward gang activity in public and assisted housing. DOJ's newly created Procurement Fraud Task Force, a result of Gulf Coast and Iraq war funding, requires the Office of Investigation to use assets in collaborating with the Department to combat fraud in its procurement processes. OI Regional offices are working with their individual U.S Attorney's offices task forces required by the Attorney General.

A priority for OI is its continued participation in Gulf Coast Hurricane Relief Fraud Task Forces: the DOJ Washington Disaster Recovery Working Group; the National Center for Disaster Fraud Task Force, the FBI New Orleans Public Corruption Office, and the Department of Homeland Security Hurricane Katrina Roundtable.

5. OFFICE OF MANAGEMENT AND POLICY (OMAP)

a. Employment and Responsibilities

OMAP provides OIGwide administrative support, including budget and financial management operations and policy, strategic planning, human resources management, employee training, internal policy development, information technology (IT) and automated office support services, reports preparation, and records management. This Office also oversees the OIG Internal Management Assessment Program, the OIG Hotline operation, and has instituted an outreach program to promote fraud awareness and training for HUD staff and program administrators. The OMAP is responsible for Equal Employment Opportunity, Alternative Dispute Resolution, and Ombudsman functions.

b. Workload

OMAP is the OIG focal point for providing streamlined support to OIG and developing policies and procedures, particularly those related to administrative programs and human resources. OMAP has an ongoing initiative to issue new or updated policies and guidance in these two areas and completed 10 major policy renewals in fiscal year 2008. OMAP also conducts the OIG Internal Management Assessment Program that measures OIG wide compliance with professional audit and investigative standards and administrative policies. This program involves a comprehensive evaluation of 1 Region each quarter for 4 evaluations per year, so that each Region is evaluated at least once every 3 years.

OMAP created a Program Integrity Division (Hotline), which provides leadership and works with Departmental staff to find ways to prevent waste, fraud, and abuse in HUD programs. The Division develops fraud prevention bulletins and other fraud awareness material. This Division is also responsible for OIG Hotline functions. For fiscal year 2008, the Hotline staff is on pace to process about 20,136 inquiries/complaints. As of March 2009, Hotline staff has processed 8,260 inquiries/complaints.

The OIG has outsourced its automation services support to a contractor. Our OIG IT staff monitors the contractor's performance as part of an overall effort to enhance mission performance. The IT staff provides infrastructure support in the many HUD/GSA mandated moves of nationwide offices. IT has created a mobile "office anywhere" environment. This environment allows auditors and investigators to connect to the OIG network directly from an audit/investigative site, and includes access to secure OIG e-mail via the Internet and through the use of wireless handheld devices. An OIG IT Security Manager strengthens the security and integrity of the OIG network. Significant effort has gone into assuring data and network security. All laptops have been encrypted and efforts continue so OIG can meet new OMB security requirements.

The OIG continues to enhance a management information system to provide for automated business processes for Audit and Investigations. OIG continues to enhance a system that meets the broad reporting requirements of OIG to include current performance measures, and Semiannual Reports to Congress. The system will also be strengthened over time to include data reporting capabilities for timekeeping, contracts, budgets, hotline, task tracking, continuity of operations data, training, and employee data. With this well-designed system, OIG will be able to respond quickly and effectively to requests from any source.

OMAP oversees a contract with the U.S. Department of Treasury, Bureau of Public Debt (BPD), to provide human resources and procurement services. Outsourcing these functions has enhanced OIG mission performance while preserving its independence from the Department. BPD handles about 100 contracts a year and the OIG staff monitors BPD. Moreover, it has allowed the OIG to devote a high percentage of its limited resources to primary mission activities. In addition, the OIG does not have to compete with other Departmental offices for resources in these areas. As a result, OIG can devote its limited support staff to policy development, advice and guidance, and contract oversight.

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The Training division coordinates and oversees all training for OIG staff. Last year they processed over 465 students for internal OI training and approximately 137 for training at the Federal Law Enforcement Center (FLETC) in Glynco, GA. Emphasis has been on in-house Program Fraud Training in support of the strategic focus. To date (fiscal year 2009) they have processed approximately 136 employees through FLETC in Glynco, GA. By the end of fiscal year 2009, it is anticipated that approximately 380 employees will have been processed through internal OIG training. New courses will continue to be developed including New Employee Orientation, Supervisory Training, Community Development and Planning training.

The OIG's extensive budget and administrative services, reports preparation, and records management activities are conducted in-house with a small staff that oversees OIG operations in Headquarters. It also provides policy and procedural guidance to administrative staff in the OIG regional and outlying offices. OMAP has also initiated a Research and Planning function, which will track the Strategic Plan, do research, and support strategic planning work.

OMAP is also responsible for various Equal Employment Opportunities.