

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

SALARIES AND EXPENSES

OFFICE OF INSPECTOR GENERAL

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 2013. The following table summarizes the funding sources and staffing levels:

	<u>Actual</u> <u>2011</u>	Current Estimate <u>2012</u>	Estimate <u>2013</u>	Increase + Decrease - <u>2013 vs. 2012</u>
<u>Budget Authority</u>		(Dollars in Thousands)		
New Budget Authority.....	\$124,961	\$124,000	\$125,600	+\$1,600
Carryover/Supplemental				
2007 Disaster Assistance a/....	5,109	2,023	...	-2,300
2009 American Recovery b/....	<u>13,676</u>	<u>7,276</u>	<u>2,000</u>	<u>-5,600</u>
Total Funds Available.....	143,746	133,299	127,600	-6,300
Full-Time Equivalents c/.....	712	665	645	...

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

b/ 2009 American Recovery, P.L. 111-5.

c/ Full-Time Equivalents (FTE) include those supported by supplemental appropriations.

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 2013:

- The aggregate budget request for the operations of the HUD OIG is \$125,600,000.

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- The portion of this amount needed for HUD OIG training is \$698,000. This amount fully funds HUD OIG training needs for fiscal year 2013.
- The amount for support of the Council of the Inspectors General on Integrity and Efficiency is \$468,000.

The non-Disaster Assistance fiscal year 2013 estimate is \$126 million. This request reflects an increase of \$1.6 million over the fiscal year 2012 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 and to continue our robust mortgage fraud initiatives. In order to maintain our oversight efforts, comply with this request and continue oversight of disaster and Recovery Act funds, OIG needs to be funded at \$125.6 million in fiscal year 2013. Without this funding we can no longer maintain the vital disaster work in the Gulf States as well as our oversight of the health of Federal Housing Administration (FHA) and Recovery funds. The OIG anticipates an increase of the FHA and Recovery Act related Investigations and Audits as HUD continues to be a leader in the government's economic recovery programs. Furthermore, with 86 percent of HUD's \$13.6 billion Recovery Act funds, and 73 percent of the \$19.7 billion Disaster supplemental HUD funds expended to date, the majority of the audits and investigative work would be put in jeopardy because many audits, and all investigations take place after funds are expended.

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 improving the integrity of the 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. The FHA's market share has increased from less than 5 percent of new purchase mortgages in 2007 to more than 35% in 2011. The FHA now insures more than 7,300,000 mortgages with a gross amortized balance of more than \$1 trillion. In addition, HUD is actively involved in foreclosure mitigation, homeownership counseling, and a myriad of efforts to curb mortgage abuse and lending discrimination. Significant changes in the single family industry and meltdown of the subprime market require a new emphasis on single family programs 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), of which most will be expended in 2012, increasing the need for audits and investigations. OIG has given priority to audits of Single Family loan origination abuses, payments in the rental assistance programs, and HUD fiscal and informational systems. The overall objectives of OIG's planned audits in these areas are to aid HUD in ensuring that management reforms are effective, and to address Congressional and taxpayer concerns about program delivery and financial integrity. Detecting and preventing fraud, waste and abuse are integral components of HUD OIG's work. Approximately 14 percent of audits that were issued by the end of fiscal year 2011 were dedicated to Single Family Programs. In addition, 35 percent of investigations in fiscal year 2011 were involving Single Family Programs.

A second objective is to *"Contribute to Improving HUD's Execution of and accountability of Fiscal Responsibilities."* The scope of efforts on this objective included evaluations and audits of HUD's management of program delivery and financial and management systems. Audits completed by March 31, 2010, for fiscal year 2010 in all areas identified more than \$630 million in improper payments (ineligible costs, unsupported costs, and funds put to better use). Investigations completed in fiscal year 2011 resulted in monetary recoveries

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totaling more than \$292 million. A final strategic objective is to "*Contribute to a reduction in 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 2011, multi-agency fraud operations were conducted by Regional OI staff targeting 30 troubled public housing authorities and/or multi-family 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 2013 level of 645 full-time equivalents (FTEs). We used the supplemental funding to hold our FTE level at 712 in fiscal year 2011. 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 2009, we utilized approximately 40 FTEs on this effort. In addition we received \$15 million from the American Recovery and Reinvestment Act of 2009 for oversight of HUD's Recovery Act funding of \$13.6 billion. This funding is available until 2013, if we are able to get a waiver of the Dodd-Frank provision that unobligated Recovery Act funds be returned to the Department of the Treasury on December 31, 2012. We will obligate approximately \$7.6 million this year in staffing and travel costs associated with new audits and investigations of stimulus grants and loans made by HUD and \$2 million next year, as this must track with HUD's expenditures. The need and timing for Audits and Investigations generally occurs 1-2 years after HUD program expenditures. OIG does not anticipate new supplemental funding to be approved; consequently, our dedicated FTE and direct costs must be funded with fiscal year 2013 direct appropriated funding.

We anticipate an increase of FHA-related investigations and audits. As noted, until as recently as 2007, FHA's market share remained quite low as conventional subprime loans were heavily marketed by lenders. The FHA now insures nearly 4 of 10 new purchase mortgages, and the FHA commands a market share of 30 percent or more of all mortgages (purchase and refinance) closed. 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 will exploit FHA loan programs.

FUNDING BY OBJECT CLASS

The following table summarizes this request by object class.

	ACTUAL <u>2010</u>	ACTUAL <u>2011</u>	ESTIMATE <u>2012</u>	ESTIMATE <u>2013</u>	INCREASE + DECREASE – <u>2013 vs. 2012</u>
	(Dollars in Thousands)				
Personal Services.....	\$94,421 6,105	\$92,944	\$95,950	\$95,950	...
Travel and Transportation of Persons.....		5,469	5,242	6,000	+758
Transportation of Things.....	96	62	89	89	...
Rent, Communications, and Utilities.....	6,580	6,594	8,928	8,928	...
Printing and Reproduction.....	55	47	48	48	...
Other Services.....	15,315	18,181	11,993	12,835	+842
Training.....	688	698	698	698	...
Supplies and Materials.....	583	398	593	593	...
Furniture and Equipment.....	1,153	366	408	408	...
Insurance Claims and Indemnities.....	<u>4</u>	<u>202</u>	<u>51</u>	<u>51</u>	...
Subtotal.....	125,000	124,961	124,000	125,600	1,600

Personal Services. The fiscal year 2013 estimate of \$95.0 million reflects an increase of \$3.2 million from fiscal year 2011. This reflects the same level as the year 2012 President’s budget. In fiscal year 2010 OIG received an additional \$5 million to focus on FHA efforts. The fiscal year 2013 budget to permit continuation of our commitment to the Gulf State oversight, and maintaining our commitment to FHA and Recovery Act responsibilities.

Travel and Transportation of Persons. The OIG staff must travel extensively to carry out our audit and investigative responsibilities. The Audit staff travels to program participants, grantee locations 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 investigation priorities such as attending pertinent training at the Federal Law Enforcement Training Center (FLETC), IG Academy and other periodic in-house training. Due to the fact that we have fewer OIG employees to conduct our important audit and investigative work, those employees on the rolls will have to travel more frequently than past years in order to keep current on our oversight work. While our staff is decreasing, the work load is not diminishing. Further, travel costs, especially

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fuel-related expenses (vehicle and airfare) are continuing to rise at a significant rate. OIG auditors must also meet the statutorily required 80 hours of training every two years. This training is a combination of both in-house and external training. The fiscal year 2013 estimate of \$6 million in travel related costs reflects an increase of \$0.7 million from fiscal year 2012. OIG is implementing procedures to ensure that employees use technology capability, such as video conferencing and video server are used as widely as possible to ensure we keep our travel expenses at the lowest possible level.

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 2012 estimate of \$0.89 million reflects remains about the same as fiscal year 2011.

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 2013 estimate of \$8.9 million remains the same as fiscal year 2012.

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, training material, external publications and other items are covered under this classification. The fiscal year 2013 estimate of \$0.05 million remains about the same level as fiscal year 2012. Additionally, in our efforts to comply with the Executive Order to promote efficiency, our employees have been directed to use electronic data to the widest extent possible in order to reduce printing costs. Further, we have maximized use of network printers and scanners.

Other Services. A large number 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, one such as agreement with the Department of Justice for access to the National Crime Information Center (NCIC) data related to OIG investigative activities. The Office of Investigations (OI) and Office of Audit (OA) are also obligated to support the Council of the Inspector General on Integrity and Efficiency (CIGIE) which will be assessing a fee of \$468,000 in 2013 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. HUD OIG leverages technology to maximize our audits and investigations. OIG also maintains and operates its information technology network.

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.

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

The fiscal year 2013 estimate of \$13 million for this object class reflects an increase for inflation. In addition, this category will continue enhancements to OIG Investigation and Audit Management Tracking Systems and provide additional security to meet Office of Management and Budget (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, including the Federal Law Enforcement Training Center (FLETC) and IG Academy. OIG plans to expend \$0.7 million for employee training, about the same level as fiscal year 2012.

Supplies and Materials. Funding under this category covers 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 2013 estimate is \$0.6 million remains about the same level as fiscal year 2012.

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 2013 estimate of \$0.4 million remains about the same level as fiscal year 2012.

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 2013 estimate of \$0.05 million remains about the same level as fiscal year 2012.

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 September 30, 2011, OIG's results totaled nearly \$1.880 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, achieving a total of 18.6 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, the OIG regional offices meet with HUD's Regional directors to address areas of mutual concern. OIG is working

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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

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;

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- 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 HUD grantees, 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 \$65.8 billion in fiscal year 2010 and \$57.9 billion for fiscal year 2011. In terms of Federal risk exposure, HUD is one of the largest Federal agencies because of FHA insurance activities. As of September 2011, FHA currently has 7.9 million insured single family mortgages and 12,500 insured Multifamily projects in its portfolio with an outstanding mortgage insurance of approximately \$1.3 trillion. In addition, Ginnie Mae, a wholly owned government corporation with HUD, guaranteed \$350 billion in mortgage-backed securities during fiscal year 2011. Approximately 45,000 organizations deliver HUD programs nationwide. The Department also incurs operating expenses for approximately 9,022 employees (as of August 2011), 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 American Recovery and Reinvestment 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

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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's 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. New HUD programs have been added and existing programs expanded due to the: (1) passage of the American Recovery and Reinvestment Act of 2009, (2) passage of the Housing and Economic Recovery Act which contained provisions to modernize FHA and establish the Neighborhood Stabilization Programs and expanded the use of the Home Equity Conversion Mortgage (HECM) reverse mortgages; (3) increased pooling of Ginnie Mae mortgaged-backed securities, and (4) continued work in the Gulf Coast. IG continues to experience a huge increase in workload to 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; 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 such as, capacity to oversee expanded market share with limited staff. Also, the OA has a responsibility to ensure that Recovery funds distributed to the agency are

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spent in accordance with legal and administrative requirements, and that the agency meets accountability objectives defined by the Office of Management and Budget.

The following are some of our traditional workload measurements for the six months ending September 30, 2011.

- Internal Audit Reports Issued.....23
- External Audit Reports Issued91
- Collections from Audit Activities.....\$21.4 million
- Questioned Costs on Audits Issued.....\$97.2 million
- Recommendations that Funds be put to Better Use\$78.2 million

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 several fiscal years was in response to Congress. 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. The OA also conducted several reviews of the HOME program based upon 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 Act programs comply with established Program Plans, the Office of Audit has completed reviews of HUD's Front End Risk Assessments and grantee capacity reviews, and expenditure reviews in relation to the Recovery Act funds. OA will

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continue to focus on key financial decisions and processes used by HUD to disperse and monitor Recovery Act funding. This includes conducting audits involving grantee capacity, expenditures, and reporting; completing 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.

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).

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, requests 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 2.3 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 that we will continue to address. Also, we plan to continue to conduct audits of PHA development and operational activities with the objective in part of reducing operation costs. The audits will focus on: development activities, the implementation of the asset management program, the modernization of the housing stock through the capital funds program activities, and receivership recovery efforts. HUD will also be assisting 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. The Department is also increasing the number of housing agencies participating in the Moving-to-Work program and the control environment for this demonstration continues to need evaluation.
- Single Family Audits. FHA's share of mortgage originations has been at an all-time high over the past few years, increasing from 3 percent in fiscal year 2005 and 2006 to a high of nearly 29 percent in the fourth quarter of fiscal year 2008. FHA's fiscal year 2011 share of mortgage originations was approximately 17 percent. FHA's total forward insurance endorsements in terms of volume decreased 28.2 percent from nearly 1.6 million to more than 1.2 million from fiscal year 2010 to fiscal year 2011, respectively. Further, Single Family FHA insured mortgage endorsements slightly decreased from over \$275 billion to over \$217 billion as of fiscal year 2010 to fiscal year 2011, and application share in terms of dollars also slightly decreased from 68 to 61 percent during same period. FHA's Single Family lender audits still continue to be a priority due to the program's elevated role in the nation's mortgage finance system, increased use of loss mitigation tools, implementation of risk management initiatives and associated risks and abuses being experienced in Single Family programs. A specialized audit program has been developed for the purpose of targeting lenders for audit considering a number of high risk indicators. In addition to being a part of Goal #1 in 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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- Office of Healthcare Programs. Insurance on residential care facilities has increased to \$17.7 billion in 2011 from approximately \$12.9 billion in 2008. Applications for the program have more than tripled since 2008 even after a drop in applications since 2010. The increased activity and changes in procedures since transferring the program area over from Multifamily in 2009 make this program area high risk. Insurance on hospitals can be in as little as \$10 million or in excess of \$200 million making each loan significant. The Department currently insures 109 hospital loans for more than \$9 billion. Due to the increased risk related to higher activity in residential care facilities and high dollar amount of hospital loans, OA will be adding this to its list of priority areas despite having monitored it closely in the past.
- CPD Grantees. Congress appropriated \$1.98 billion in fiscal year 2010 for the Neighborhood Stabilization Program 2 and \$1 billion for the Neighborhood Stabilization Program 3. 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. Due to recent articles in the Washington Post and Congressional interest regarding the HOME program, OA has focused on these reviews. The AIGA has testified concerning the HOME program that the OA will continue "working with the Department and the Congress in addressing ways to improve the effectiveness of this vital program".
- Disaster Related Audits. (September 11th, Hurricane Recovery etc) In response to disasters, Congress may appropriate additional funding for the CDBG programs as Disaster Recovery grants to rebuild the affected areas and provide crucial seed money to start the recovery process. Since Fiscal Year 2001, Congress has appropriated \$30 billion in CDBG Disaster Recovery Funding. This block grant assistance may fund a broad range of recovery activities. HUD can help communities and neighborhoods that otherwise might not recover due to limited resources. Because CDBG programs include a broad list of eligible activities and allow for flexibility, communities and states affected by disasters have been able to undertake short-term disaster relief efforts, implement mitigation strategies, and finance long-term recovery activities. Further, Disaster Recovery grants often supplement disaster programs of the Federal Emergency Management Agency, the Small Business Administration, and the U.S. Army Corps of Engineers. The OA is currently conducting several reviews of disaster funding in the following areas: Mississippi, Texas and New York. In addition to the on-going disaster audits being performed, the OA has also conducted numerous congressionally-mandated audits including: September 11, 2001, disaster and the New Orleans Housing Authority (HANO). During this past reporting period, OIG issued two audits relating to disaster type review resulting in findings of questioned costs of more than \$3.1 million.

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- 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 Division evaluates system input, output; processing controls; backup and recovery plans; system security; networks; computer facilities; IT procurements and contracts; and systems development. Examples of reviews conducted by the Division include but are not limited to (1) integrity of the information stored on computer systems, (2) the ability to preserve the confidentiality of sensitive data, and (3) the continued availability of the information systems. 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.
- Financial Audits include the statutory required 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, an assessment of internal controls over financial reporting, and an evaluation of compliance with financial management laws and regulations. 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 to 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 the effort of 18 full-time employees.
- Civil Fraud Initiative. Due to the significant increase in mortgage other financial related cases, the Department of Justice is promoting civil fraud initiatives. Thus we have decided to organizationally redesign the Office of Audit to include a Deputy AIG for Special Operations. The Special Operations unit includes Technical Support, Disaster Oversight and Gulf Coast Regional staff, along with a newly formed Civil Fraud Division. The 17 forensic auditors for the civil fraud division have been reassigned from the Office of Investigation to the Office of Audit. Civil actions may include but are not limited to: the False Claims Act (treble damages, plus penalties); the Financial Institutions Reform, Recovery, and Enforcement Act (large penalties); and other double damages suits (i.e., equity skimming). The treble and double damages provisions, as well as the ability to pursue monetary penalties, make civil

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actions an effective deterrent and bring money back into the Federal Government. Administrative sanctions, another deterrent tool, include the Program Fraud Civil Remedies Act (double damages, plus penalties); debarments, suspensions, and limited denials of participation; and civil money penalties. One of the major projects taken on under the OIG's Civil Fraud Initiative during fiscal years 2010 and 2011 was Operation Watchdog. The initiative came at the request of the FHA Commissioner and focused on 15 mortgage companies with significant claim rates against the FHA mortgage insurance program. We determined that these lenders did not properly underwrite 140 of 284 loans reviewed, causing the FHA insurance fund to suffer or to be expected to suffer losses of more than \$11 million. In fiscal years 2011 and 2012, we focused civil fraud efforts on mortgage fraud committed by lenders, real estate professionals, and borrowers. In our largest ongoing case, the Department of Justice is nearing an expected \$1 billion settlement from on major FHA lender, based on our efforts and those of HUD's Office of General Counsel. The Office of Audit also recently began a civil fraud initiative, Project High Default Lender, which focuses on the worst performing FHA lenders in each judicial district of the Department of Justice. Due to this initiative and other proactive efforts, the Office of Audit has more than 25 civil cases currently underway with the Department of Justice or HUD's Office of General Counsel; and expects to refer many more for prosecution during fiscal year 2012.

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 personnel are assigned to four Headquarters Divisions, 12 Regional Offices, and the Gulf Coast Region, totaling 49 field offices (including the Regional sites) 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 President Obama's direct Department of Justice Financial Fraud Enforcement Task Force where the Inspector General is the Co-Chair of the Mortgage Fraud Working Group, FBI's National Mortgage Team at FBI/HUDOIG 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), Home Equity Conversion Mortgage

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(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 260 field personnel support 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.

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, 2010 through September 30, 2011.

INVESTIGATIVE RESULTS

ARRESTS a/	INDICTMENTS/INFORMATIONS	CONVICTIONS/PLEAS/PRE-TRIAL DIVERSIONS	INVESTIGATIVE RECEIVABLES/RECOVERIES b/	ADMINISTRATIVE SANCTIONS	CIVIL ACTIONS	TOTAL ENFORCEMENT ACTIONS
1,410	1,301	992	\$292,397,572.42	864	129	4,696

- 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 (PCFRA), 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:

Investigative Area	Total Enforcement Actions
Single Family Mortgage	1,257
Public and Indian Housing	2,728
FHA Multi Family	432
Community Planning and Development	222
Other/GNMA	57
Total	4,696

The Gulf Coast Region’s results in hurricane-related HUD program fraud for fiscal year 2011 are listed below. With these results, and now that the majority of individual assistance program delivery has been completed, we fully expect an increase in fraud activity directed at the larger and broader spending of Disaster Relief funds meant for infrastructure replacement and reinforcement. This was our experience after the delivery of disaster funds similar to what occurred following the events of September 11, 2001.

ARRESTS	INDICTMENTS/INFORMATION S	CONVICTION SPLEAS/PRE- TRIAL DIVERSIONS	ADMINISTRATIV E ACTIONS	INVESTIGATIVE RECEIVABLES/ RECOVERIES	FUNDS PUT TO BETTER USE
66	43	42	25	\$478,021.65	\$4,721,594.25

The OIG strives to eliminate material weaknesses in HUD programs that contribute to fraud and abuse. OI carries out this mandate by identifying weaknesses during the course of criminal, civil or administrative investigations and summarizing the results on Systemic Implications Reports (SIRs) that are then submitted to appropriate HUD program offices for follow up action. SIRs provide HUD program officials sufficient information and documentation to support the need to change specific HUD rules and regulations together with suggestions for possible alternatives.

OI continues to aggressively pursue fraud in the FHA Single Family mortgage and rental assistance program areas. During fiscal year 2011, OI conducted investigations in these areas resulting in 1,257 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 654 enforcement actions (including judicial and administrative actions). All of our 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. We continue to maintain a close working relationship with the FBI at both the Headquarters and Regional and Field Office levels by participating in FBI Mortgage Fraud Task Forces around the country. OI was also a major partner in DOJ’s successful recent “Operation Stolen Dreams” effort targeting mortgage fraud, which resulted in the arrest or charging of hundreds of mortgage fraud suspects. We also work 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.

c. Investigations’ Program Fraud Initiatives

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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 continued weakness in the real estate and mortgage markets, 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 FHA Home Affordable Modification Program (FHA-HAMP) and other loan modification programs, FHA's programs 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 loss mitigation programs, offer new and continuing investigative and audit challenges.
 - For fiscal years 2012 and 2013, 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. OI is now seeing new fraud schemes, including foreclosure rescue and loan modification scams, and short sale and pre-foreclosure frauds. OI is now expanding its focus to include identifying and investigating those who prey on vulnerable distressed mortgagors. The OIG will expand its efforts to include fraud related to the Neighborhood Stabilization Program, 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 Office of Investigation still works closely with our primary law enforcement partner, the FBI, coordinating initiatives, training, and planning within our Mortgage Fraud Task Forces and Working Groups. FHA continues to dominate the purchase mortgage market; the FHA insured more than 1,271,000 mortgages for \$236 billion in fiscal year 2011; we expect a continued increase in our case load. Investigative efforts on Single Family cases from October 1, 2010, through September 30, 2011, resulted in 1,257 judicial and administrative actions, \$249,205,853 in investigative recoveries, and \$17,424,611 in funds put to better use.
 - Included in OI's efforts to address FHA mortgage fraud is: a) appointment of the Inspector General by President Obama as a member of the Department of Justice Financial Fraud Economic Task Force and the Inspector General's participation in the Task Force's Mortgage Fraud Working Group as its Co-Chair; b) participation in Mortgage Fraud Working Groups and in over 40 locations throughout the country (some of these task forces are joint with the FBI); c) Mortgage Fraud training instructions at the DOJ National Advocacy Center in Columbia, SC; d) outreach initiatives with mortgage industry professional groups, such as Mortgage Bankers Association; e) formation of supervisory internal working groups and

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training programs 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 initiated and continues a Rental Assistance Fraud Initiative. OI Special Agents in Charge of all 13 Regions continue to make Section 8 rental assistance fraud, committed by the tenants and landlords, Section 8 administrators, management companies, or Public Housing Authority (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.

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

Another major element of OI's Rental Fraud initiative is the conduct of an initiative to identify sex offenders in federally funded public housing, who are benefitting from federal housing assistance programs that they are not entitled to receive. OI compares lists containing the names and identifying information of thousands of registered sex offenders to HUD rental assistance information and provides information on matches to local law enforcement and to OI Agents. Since inception of the program 57 sex offenders were arrested, 26 indicted, and 137 evicted from public housing.

OI also continues to partner with NCIC on a Fugitive Felon initiative. OI compares millions of records pertaining to fugitive felons to HUD rental assistance information, and provides information on tens of thousands of matches back to NCIC. Since the inception of the Fugitive Felon Initiative, OI has opened 848 cases and closed 811 cases. 8,847 arrests have been made by OI and other Federal, State and local law enforcement agencies.

OI's plans to continue its involvement in these initiatives for fiscal years 2012 and 2013.

- Public Corruption in HUD Grant Programs and Housing Management Entities

Public corruption in the management of housing projects as well as the administration of grant programs funded to state and local governments continues to be a top priority for OI and 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

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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 the Real Estate Assessment Center (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 HOME Program, Homeless and Emergency Shelter Grants, as well as Neighborhood Stabilization Program (NSP), which provide \$3.9 billion in formula grants to local communities to address the problems associated with foreclosed and abandoned properties. The Recovery Act also provided another \$2 billion in stimulus funds via competitive grants. Since this is a significant fund allocation processed in an unusually short time frame, 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 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

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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

Inspections and Evaluations (I&E) provides an alternative means to quickly review HUD programs, operations and activities to determine effectiveness and compliance with applicable rules and regulations. I&E reviews can be tailored to the specific needs of OIG and HUD managers and Congress using various study methods and analytical techniques. Since the inception of Inspections and Evaluations in HUD OIG, I&E reviews and resulting recommendations have proved successful in effecting changes within HUD programs designed to improve operations and reduce vulnerabilities to fraud and abuse. In fiscal year 2011, I&E completed reviews of Home Equity Mortgage (HECM) loan program payments made after the deaths of borrowers, HUD's Government-wide Purchase Card Program and the processing of suspension and debarment referrals by HUD's Departmental Enforcement Center. HUDOIG will continue to rely on I&E as a task oriented resource to address critical issues within HUD including the administration of HUD's REO inventory, fraud and abuse in the Public Housing Program and the effectiveness of programs funded through the Recovery Act.

5. OFFICE OF MANAGEMENT AND POLICY (OMAP)

a. Employment and Responsibilities

OMAP provides OIG-wide administrative support, including: Public and Congressional affairs, Budget and Financial Management, Operations and Policy, Strategic Planning, Human Resources Management, Employee Training and Development, Internal Policy Development and Updates, Information Technology (IT), preparation of the Semi-Annual Reports to Congress, and Recovery Act reporting. OMAP also manages the OIG-wide Internal Management Assessment Program, which requires that each field office be regularly inspected to ensure compliance with OIG, CIGIE, and other requirements. Additionally, OMAP staff administers the HUD-OIG Hotline operation. The Hotline staff handles complaints and leads relating to not only HUD-OIG operations, but also issues for HUD, as the Department does not have its own Hotline operation. OMAP has an active outreach program to promote fraud awareness and training for HUD staff, as well as industry professionals, and other stakeholders. OMAP is responsible for the HUD-OIG Equal Employment Opportunity program, and often works closely with the Department. Furthermore, OMAP manages the agency Alternative Dispute Resolution program, Ombudsman functions, and the Employee Advisory Council programs. OMAP has a robust communications system and ensures that internal and external stakeholders are kept informed of our agency policies, procedures and other important news via our website, intranet site and use of other software tools, including SharePoint. OMAP receives all Congressional requests and prepares all responses to inquiries from Members of Congress, and drafts all Congressional testimony and briefing materials. The OMAP staff also represents HUD-OIG at CIGIE meetings and functions. OMAP IT staff has aggressively addressed automation needs and has recently and successfully developed and implemented new systems which have significantly enhanced agency wide business operations for Audit, Investigations, Hotline, and Human Resources.

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, human resources, training, budget, financial management, public and congressional affairs. 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 one region each quarter for a total of four 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 2010, the Hotline staff processed about 20,000 contacts. As of fiscal year 2011, Hotline staff has processed 13,119 contacts.

The OIG outsources some of 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. Also, the IT staff ensures that the OIG stays compliant with all new Office of Management and Budget (OMB) and federal regulations.

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 in the field, including access to secure OIG e-mail via the worldwide Internet and through the use of wireless handheld devices. An OIG IT Security Manager oversees 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 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, COOP data, training, and employee data. With this well-designed system called, the OIG Centralized Database, 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 the work of 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

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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.

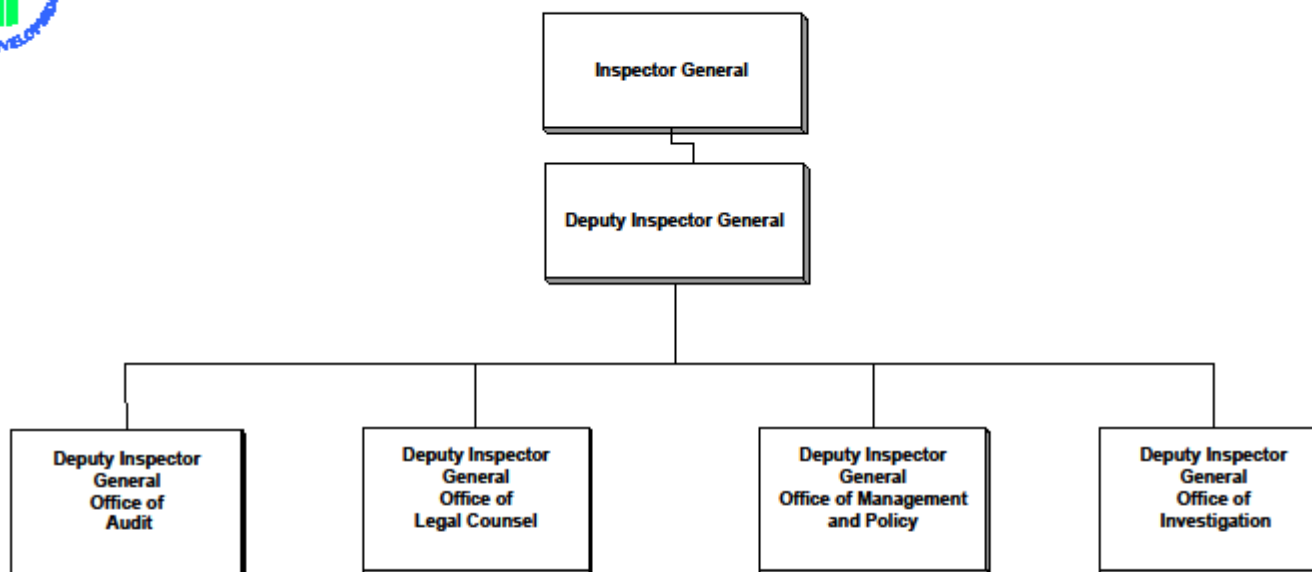
The Training Division coordinates and oversees all training for OIG staff. For fiscal year 2010, they trained over 450 OIG employees, including 100 new OIG employees, created seven different training programs including Introduction to HUD Programs, Single Family, and Civil Fraud. During the last fiscal year, the Training Division developed four additional new training programs for OIG employees, including Public and Indian Housing, and Financial Audit Division Training. Emphasis has been on in-house Program Fraud Training in support of the strategic focus. By the end of fiscal year 2011, it is anticipated that approximately 650 employees will have been trained through internal OIG training. New courses will continue to be developed and established courses need to be updated. All OIG auditors are required to have 80 hours of continual professional training every two years, 24 hours of which in the government arena. OIG Training Division develops and presents in-house courses to help the Office of Audit meet these specific CPE requirements.

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 is also responsible for various Equal Employment Opportunity programs including working closely with the Department, administering the Alternative Dispute Resolution program, Ombudsman program and the Employee Advisory Council. OIG actively involves OIG staff in management and operations of the agency through the Employee Advisory committee.



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October 14, 2009