

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 2005.

APPROPRIATION HIGHLIGHTS

The following table summarizes the funding sources and staffing levels.

	<u>ACTUAL</u> 2003	<u>ENACTED</u> 2004	<u>ESTIMATE</u> 2005	INCREASE + DECREASE - <u>2005 vs 2004</u>
	(Dollars in Thousands)			
<u>Budget Authority</u>				
Funds Available:				
Budget Authority	\$74,156	\$77,000	\$77,000	...
Transfer from Others	292
Transfer from FHA Fund ...	23,191	23,858	24,000	+142
Rescission	<u>-482</u>	<u>-454</u>	<u>...</u>	<u>+454</u>
Subtotal	97,157	100,404	101,000	+596
Outlays (net)	74,000	76,000	77,000	+1,000
Full-Time Permanent				
Appointments (EOY)	700	675	660	-15
Full-Time Equivalents	649	675	660	-15

NOTE: In the Appropriation Highlights Table, the 2003 and 2004 transfer amounts are net the rescission of .65 percent and .59 percent, respectively.

SUMMARY OF BUDGET ESTIMATES

The fiscal year 2005 estimate of \$101 million reflects an increase of \$596 thousand from fiscal year 2004. Additional budget justification and estimates are provided below.

HUMAN CAPITAL

For fiscal year 2005, the OIG level will decrease by 15 full-time equivalents (FTEs) from fiscal year 2004.

In recent years, the OIG has refocused its efforts from violent crime activities to investigations involving Federal Housing Administration (FHA) single-family mortgage fraud, including property flipping schemes and predatory lending practices. In support of this strategy, specialized training classes have been developed to transition Special Agents from illegal drug and violent crime

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investigations to FHA mortgage fraud, and to refresh Agents and Auditors who have not been recently involved in FHA mortgage audits or investigations. In addition, Office of Investigations (OI) has analyzed the delivery of HUD program funds nationwide and re-deployed FTEs to those areas of the country receiving the greatest HUD funding and where the potential for fraud is highest.

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FUNDING BY OBJECT CLASS

The following table summarizes this request by object class.

	ACTUAL 2003	ENACTED 2004	ESTIMATE 2005	INCREASE + DECREASE - 2005 vs 2004
(Dollars in Thousands)				
Personal Services	\$67,922	\$72,825	\$73,919	+\$1,094
Travel and Transportation Of				
Persons	5,360	5,189	5,057	-132
Transportation Of Things	191	100	23	-77
Rent, Communications, and				
Utilities	8,719	8,552	8,536	-16
Printing and Reproduction	91	90	81	-9
Other Services	12,581	12,434	12,291	-143
Supplies and Materials	495	495	445	-50
Furniture and Equipment	1,643	703	638	-65
Insurance Claims and				
Indemnities	<u>10</u>	<u>15</u>	<u>10</u>	<u>-5</u>
Total Obligations	97,013	100,404	101,000	+596

CHANGES FROM FISCAL YEAR 2004 TO FISCAL YEAR 2005

Descriptions of the various object classes, used by the OIG, are provided below. Overall, the Personal Services object class estimate will increase while all other object class categories will decrease.

Personal Services

The fiscal year 2005 estimate of \$73,919 thousand reflects an increase of \$1,094 thousand above fiscal year 2004.

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, and evaluations of pricing proposals. Investigation staff requires extensive travel to interview witnesses and subjects of investigations, and to examine records. This object class also covers training and conference travel, program execution travel, miscellaneous travel related to audit and investigative activities, and leased vehicles. The fiscal year 2005 estimate of \$5,057 thousand reflects a decrease of \$132 thousand from fiscal year 2004.

Transportation of Things

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This object class includes the cost of reimbursement to OIG personnel who are authorized to move household effects or house trailers when transferred from one permanent duty station to another. The fiscal year 2005 estimate of \$23 thousand reflects a decrease of \$77 thousand from fiscal year 2004.

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Rent, Communications and Utilities

Funds under this object class are for rental costs, including space and equipment, as well as communication and utility services. Rent includes occupied space, security space, parking, and utilities. The fiscal year 2005 estimate of \$8,536 thousand reflects a slight decrease of \$16 thousand from fiscal year 2004.

Printing and Reproduction

Funds included in this object class are for the cost of printing and reproduction services, and related composition and binding operations performed by or through the Government Printing Office. The OIG's Semiannual Reports to the Congress are also covered under this classification. The fiscal year 2005 estimate of \$81 thousand reflects a slight decrease of \$9 thousand from fiscal year 2004.

Other Services

The fiscal year 2005 estimate of \$12,291 thousand reflects a slight decrease of \$143 thousand from fiscal year 2004.

A multitude of activities are funded under this object class, including professional training and development of OIG staff personnel, audit services, general support, and information technology (IT) maintenance and services. Audit services consist primarily of the cost of contracting for the audits of the FHA and Ginnie Mae financial statements.

OIG has various Interagency Agreements. One such agreement is with the Department of Justice for access to National Crime Information Center (NCIC) data related to OIG investigative activities. Another with the U.S. Customs Service provides nationwide radio communications support. OIG also has agreements with the Bureau of Public Debt for personnel, contracting/ procurement services, and background checks/investigations of OIG staff; with the National Finance Center for payroll processing; and with HUD for continued support of HUD information systems.

Funds from this object class are also used for the purchase of goods and services where source identity or investigative techniques require confidentiality and normal procurement procedures might compromise that confidentiality, e.g., undercover investigations.

Since fiscal year 1999, the OIG has outsourced its automation services to a contractor under a concept called seat management. We have made significant progress in implementing a stable and reliable network. The seat management contract provides OIG with its own secure local area network and a platform on which automated workflow applications can be employed. The system accommodates sensitive communications and adds encrypted data communications security to a full range of interoperable products. This ensures the confidentiality, integrity, and availability of OIG information and results in more efficient and effective business processes.

Currently, OIG is pursuing a Management Information System (MIS) that will provide senior managers with the necessary data to direct OIG audit and investigative activity for a maximum payback on investment. OIG needs a system that directly feeds its broad reporting requirements, including performance measures, Government Performance and Results Act (GPRA), and Semiannual Reports to the Congress. With a well-designed MIS, the OIG will be able to respond quickly and effectively to requests for information from any source.

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

Supplies and Materials

Funds budgeted under this category of expense cover costs associated with the purchase of office supplies; training supplies; automation-related supplies; subscriptions to professional magazines, publications and research materials; and other items that are

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generally consumed or expended within 1 year after purchase. The fiscal year 2005 estimate of \$445 thousand reflects a decrease of \$50 thousand from fiscal year 2004.

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Furniture and Equipment

This object class includes the purchase of furniture and fixtures, general office equipment, and special equipment/weapons for law enforcement investigative activities. The fiscal year 2005 estimate of \$638 thousand reflects a decrease of \$65 thousand from fiscal year 2004.

Insurance Claims and Indemnities

This expense 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 2005 estimate of \$10 thousand reflects a decrease of \$5 thousand from fiscal year 2004.

SCOPE OF ACTIVITY

HUD's Office of Inspector General is one of the original 12 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 has separate budgetary authority. The OIG mission is to provide independent and objective reporting the Secretary and the Congress.

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, or other such reviews, as may be appropriate.

PERFORMANCE

In fiscal year 2003, the OIG had \$1.75 billion in questioned costs identified in Audit Reports, investigative recoveries/ receivables, and recommendations for funds put to better use. The cost of our operations over this time period was \$97 million, resulting in a return on investment of approximately 18 to 1.

OIG has developed a Strategic Plan that further refines performance measures and identifies outputs and outcomes 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 audits and investigations. 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.

Investigative efforts on single-family cases in fiscal year 2003, through May 31, 2003, involve 5,115 possible subjects, 28,691 FHA insured properties, and estimated mortgage values totaling \$1 billion. These cases are being worked in coordination with 311 Assistant United States Attorneys and approximately 37 percent are being worked with other Federal law enforcement agencies.

The OIG strives to eliminate material weaknesses in HUD programs. For example, OI prepares Systemic Implications Reports (SIRs) 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.

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The OIG focuses its efforts on assisting HUD in ensuring 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 scope of OIG's efforts will expand based on recent evaluations of HUD's management/ organizational reforms, audits of HUD program delivery, and financial and management systems audits, and to accommodate the President's Management Agenda and Presidential initiatives aimed at increasing housing opportunities for more Americans.

The Office of Audit will focus its efforts primarily on two areas. First, they will conduct audits that assist the Department in meeting the President's Management Agenda and new Presidential initiatives. Each audit will emphasize important issues such as human capital, financial performance, systems integration, or competitive sourcing. Second, they will focus on HUD's management challenges that are reported to the Congress semiannually. The challenges identified below are tied to HUD's management and performance issues related to the President's Management Agenda.

- Complete Departmentwide organizational changes.
- Improve financial management systems.
- Assure adequate and sufficiently trained HUD staff.
- Improve FHA single-family origination and real estate owned property oversight.
- Improve the effectiveness and efficiency of public and assisted housing program administration.

The OIG's overall objective in these five areas is to aid HUD in operating more efficiently and effectively by auditing various program operations and making comprehensive recommendations.

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. We are working with top program officials in developing a strategy to address and ultimately reduce fraud in HUD programs and operations. Emphasis is placed on communication and cooperation in working together to address weaknesses in HUD programs.

1. IMMEDIATE OFFICE OF THE INSPECTOR GENERAL

The Inspector General reports directly to the Secretary and the 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;

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- 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 an audit, investigation, or other activity;
- 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; and
- Provide other legal assistance to the IG as requested.

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. HUD's outlays are generally in the range of \$35 billion annually. In terms of Federal exposure, HUD is one of the largest Federal agencies with FHA insurance activities. FHA insures over \$100 billion in mortgages annually with an outstanding mortgage insurance portfolio of approximately \$600 billion. There are some 45,000 organizations delivering HUD programs nationwide. The Department also incurs operating expenses for approximately 10,000 employees. Audit's significant workload is generally divided into three primary categories.

1. 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 nonprofit sponsors. 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.

2. Financial Audits include financial statement and financial related audits of various HUD operations. 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. Financial-related audits include determination of whether financial information is presented in accordance with established or stated criteria, and whether or not the entity has adhered to specific financial reporting requirements established by law or regulation.

3. Advisory and Assistance Services 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) quality control reviews of 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

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detecting or preventing fraud; and (i) responses to requests for information or assistance from audit clients, including the Office of Management and Budget (OMB) and the Congress.

b. Workload

Overview. The OIG's Semiannual Reports to the Congress continue to show significant audit results. Audit's long-range strategy is to perform audit work that assists the Department in addressing the President's Management Agenda. This Agenda includes many governmentwide issues that all Federal agencies must address as well as specific HUD management challenges. Both Audit and the General Accounting Office have identified specific HUD challenges related to the President's Management Agenda. The size and diversity of HUD programs has led to staffing and information systems challenges and resulted in a variety of material weaknesses identified in OIG audits. These weaknesses are compounded by the fact that many, if not most, of HUD's critical functions are being performed by outside entities.

To provide the best possible services to HUD management and the Congress, Audit 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.

Review and Oversight. In recent years, the Department has undergone major organizational changes that have fundamentally affected the way it conducts business. This has increased the workload in Audit significantly. Major changes have been made in the manner in which the FHA conducts its business. The Department has substantially increased FHA insurance limits and privatized its real estate-owned (REO) activities. The Administration of the Section 8 program has been placed with Contract Administrators. From an organizational standpoint, reductions in the level of program staff 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. Audit's plans to review HUD programs are consistent with the goals to increase home ownership, 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 reductions in HUD program staff during the mid-1990s, reviews of regulatory and policy changes have taken on greater importance. As a result, Audit 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 work has shown that some of the most vulnerable program and operational areas in the Department include: 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 to include entitlement cities and empowerment zones; Public Housing Authority (PHA) management and operations; 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.

The following are some of our traditional workload measurements for the year ending September 30, 2003.

- Audit Memoranda Issued 43
- Internal Audit Reports Issued..... 15
- External Audit Reports Issued 70
- Collections from Audit Activities..... \$24.7 million
- Questioned Costs on Audits Issued..... \$63.6 million
- Recommendations that Funds be put
to Better Use \$1.3 billion

Audit's strategy is to: (1) continue assessing the Department's efforts to address the President's Management Agenda with emphasis on the adequacy and reliability of financial and information systems; (2) maintain a greater level of responsiveness to audit requests from Congressional Committees; (3) continue assessing Departmental staffing levels for adequacy in complying with legislative

mandates; (4) track the Department's efforts to lower FHA mortgage foreclosure rates as well as efforts to deter mortgage fraud; (5) identify Section 8 fraud, working in collaboration with the Office of Investigations; (6) continue completing a timely and comprehensive audit of HUD's Annual Financial Statements; (7) continue assessing the Department's implementation of the GPRA; and (8) recommend actions that maximize electronic methods for identifying program fraud and abuse in low-income housing programs.

Our potential audit universe continues to expand with the growth of HUD activity, especially in FHA's insurance operations. Additionally, the Congress has increasingly tasked Audit with legislated audit work. Much of the additional work in fiscal year 2002 and 2003 was in response to the Congress. For example, the Appropriations Committee tasked OIG with audit responsibility for the \$2.7 billion in disaster assistance funding being provided to New York City as a result of the terrorist attacks of September 11, 2001. The New York disaster assistance audit work is ongoing, with reports due every 6 months. Additionally, the Appropriations Committee requested that OIG conduct a comprehensive review of empowerment zones. This effort required that Audit commit a sizable portion of its staff to review seven newly designated zones. Additionally, at the request of another Congressional Committee, OIG was tasked with reviewing dozens of Multifamily Housing Restructuring technical assistance grants. This trend has continued into fiscal year 2003 with requests to audit HUD's hiring decisions and the administrative operations at the Office of Federal Housing Enterprise Oversight.

In addition to the HUD-specific mandates issued by the 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 Government Information Security Reform Act (GISRA).

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

- 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.
- Financial and Systems Audits. 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. Another IS audit priority involves assessing HUD's entitywide information security policies and plans, including security management structure and the roles and responsibilities of security personnel. This work mandated under the GISRA involves more extensive testing of security measures.
- Consultative Work. The IS Audit Division has been assisting 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.
- Technical Assistance. The IS Audit 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.

In fiscal year 2003, Audit expanded its use of forensic tools by establishing a forensic computing group within the IS Audit Division. As the use of personal computers has increased in business, so has their use in criminal endeavors. Today's business records are commonly stored on computer hard drives and off-line storage media. This group assists OI by applying new procedures in gathering evidence through electronic media. The mechanisms to do this include the use of sophisticated software/hardware techniques that can be applied to identify problem activities and preserve the integrity of seized data.

- Performance Audits. A major part of our staff time is spent conducting audits of high-risk programs and program participants. With a multitude of diverse programs in the Department, there are tens of thousands of potential audit entities. As each of these assignments is planned, Audit will maintain its focus on items in the President's Management Agenda. For example, the examination of staff resources, financial performance, and systems will be an integral part of each assignment. Some of the more critical audit areas include:
 - Strategic Management of Human Capital in HUD Business Operations;
 - Single-Family Mortgage Origination Practices;
 - Single-Family Servicing Activities;
 - Property Disposition Activities for Real Estate Owned Properties;
 - Budgeting and Planning for Information Technology Operations;
 - Insured Multifamily Operations;
 - PHA Operations and Modernization;
 - Troubled Housing Authorities;
 - Assessing the Physical and Financial Conditions of HUD Projects;
 - Administration of Low-Income Housing Assistance;
 - CDBG Grantees and Sub-grantees;
 - Homeless Program Providers; and
 - Technical Assistance.
- Financial Audits. For fiscal year 2005, Audit will continue to complete most of 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. Part of the President's Management Agenda is to improve financial performance and to develop reliable financial management systems. OIG's financial audits help in attaining these goals. Another benefit of the financial audit is that it enables Audit 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 OIG's regional offices and the IS Audit Division. Additionally, Audit contracts with independent public accountants to perform audits of the financial statements of both FHA and the Ginnie Mae. The conduct and administration of the consolidated audit requires a major commitment of staff, training, contracting, and travel resources, and requires about 23 staff years of effort.

4. OFFICE OF INVESTIGATION (OI)

a. Employment and Responsibilities

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OI is responsible for the development and implementation of investigative activities focusing on the detection and prevention of fraud and abuse in connection with HUD programs and activities. Special Agents assigned to Headquarters and ten Regional Offices are responsible for conducting a variety of investigations in all HUD program areas. OI initiates investigations of alleged violations of laws related to the administration of HUD programs and activities and employee misconduct. These investigations produce criminal prosecutions, filings of civil complaints, and/or administrative sanctions. In carrying out these responsibilities, OI works closely with other Federal, state, and local law enforcement agencies to form partnerships designed to pool resources. Many successful investigations have resulted from such investigative partnerships.

Headquarters personnel, through the Criminal Investigations Division (CID) and the Investigative Support Division (ISD), direct the activities of ten Regional Offices. A Special Investigations Division (SID) answers directly to the Assistant Inspector General for Investigation (AIGI). SID is responsible for conducting sensitive Internal Affairs investigations, Departmental employee misconduct investigations, and inspections of OIG investigative offices, the President's Council on Integrity and Efficiency (PCIE) initiated cases, which OIG is tasked to perform, and PCIE Qualitative Assessment Reviews of the investigative operations of the OIG, as required by Section 812 of the Homeland Security Act. The Special Agent in Charge of each Regional Office and SID are responsible for overseeing investigations within their respective jurisdictions.

b. Workload

OIG's Semiannual Reports to the Congress continue to show significant results from its investigative efforts. The following is a summary of investigative results for fiscal year 2003.

INVESTIGATIVE RESULTS

ARRESTS	INDICTMENTS	CONVICTIONS/ PLEAS/PRE- TRIAL DIVERSIONS	INVESTIGATIVE RECOVERIES/ COLLECTIONS	SUSPENSIONS /DEBARMENTS OF PERSONS/ FIRMS DOING BUSINESS WITH HUD
1,064	848	471	\$386,436,396	475

Maintaining an aggressive caseload, governed by national priorities, of white-collar fraud investigations is one key performance goal for OI. While other agencies, primarily the FBI and other OIG offices and the Office of Audit, have participated to some extent in our investigations, in 63 percent of our cases, the OIG independently investigates allegations of fraud against HUD programs with no support or partnership with other agencies. All of our investigations aim to identify and prosecute abusers of HUD programs, recover Federal funds, deter others from committing illegal acts against HUD, and restore public confidence in the integrity of HUD programs. It is anticipated that the FBI will continue to reallocate resources from economic and governmental fraud investigations to their current priority of matters involving national security, thereby participating to a lesser extent in joint cases with OIG.

An increasing number of investigations involve highly sophisticated and complex financial schemes perpetrated in an automated environment by educated and motivated individuals utilizing business entities operating in multiple jurisdictions, including internationally. In order to adequately address this challenge in fiscal year 2003, OIG is establishing a forensic and data retrieval capability, which will serve the needs of both audit and investigations. This lab will provide technology assistance and computer forensic support to Agents conducting complex fraud investigations that frequently require the seizure and evaluation of electronic evidence. Additionally, OIG has detailed one FTE to the Department of Treasury, Financial Crimes Enforcement Net (FINCEN), to address OIG's workload of requests to FINCEN for financial intelligence relative to money laundering, complex financial fraud criminal investigations, and link analysis.

c. Fugitive Felon Initiative

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. This project is being initiated in fiscal year 2003 based in part on an inquiry by GAO, who questioned OI about our lack of enforcement of this Public Law.

Currently, HUD provides for 4.8 million households in public housing through Section 8 rental assistance and multifamily units. The latest HUD data show the average Federal spending per subsidized unit per month is \$412. Reducing overpaid rent subsidies is one of HUD's management improvement goals in the President's Management Agenda. Identification and termination of individuals in a fugitive status fleeing felony prosecution or probation and parole violators may impact subsidies.

During fiscal year 2003, OI created a Fugitive Felony Initiative. The short start-up period in this fiscal year resulted in the opening of 420 cases, of which, 363 cases have been closed and 134 or 31 percent have resulted in arrests of the fugitives. OI derives cases by matching National Crime Information Center (NCIC), U.S. Marshals Service, or respective State crime data with HUD housing assistance data. OI proposed to establish data sharing agreements with various States and continues to utilize our newly created data mining audit function to run monthly matches of U.S. Marshals Service data.

d. Low-Income Housing Assistance

The President's Management Agenda contains five governmentwide initiatives to improve government performance and five HUD-specific initiatives to correct long-standing Departmentwide weaknesses. In HUD's fiscal year 2001 Performance and Accountability Report, HUD estimated \$978 million in subsidy overpayments attributed to tenant underreporting of income. That projection was derived from a review comparing earned and unearned household income reported to public housing authorities, project owners and management agents, to income data from Social Security Administration (SSA) and Internal Revenue Service (IRS) databases. Underreporting of income or any other false entry or statement used to acquire a housing subsidy violates HUD rules and may be a criminal violation. In fiscal year 2003, GAO listed rental subsidy overpayments as one of the Department's major material weaknesses. With estimated losses attributed to fraud approaching \$1 billion, it was clear OIG had to act. In fiscal year 2003, OIG adapted a strategy for addressing the problem using a systematic, multidimensional approach that not only addressed the individual cases referred to OIG, but called for a partnership with the Department to implement measures to reduce the overall problem, including a tenant integrity program. HUD's Section 8 program provided more than \$23 billion in rental assistance payments to low-income households in fiscal year 2002. HUD administers its Section 8 program in two parts. In general, HUD's Office of Public and Indian Housing (PIH) manages the tenant-based portion of the program, while HUD's Office of Housing manages the project-based portion.

OI is working not only with the Department to accept referrals from the Rental Housing Integrity Improvement Program (RHIP), but also with working with the Executive Directors of various housing authorities in New York, Indiana, Illinois, Virginia and the District of Columbia to develop proactive cases. OIG Special Agents in Charge in all ten Regions continue to make Section 8 housing assistance fraud, committed by the tenant, the Section 8 administrator, management companies, or PHA employees, an investigative priority. In response to the initiative, OI's inventory included 756 open Section 8 cases during FY 2003.

e. Single-Family Mortgage Fraud

Our appropriations budget for fiscal year 2002 mandated the phase out of "Operation Safe Home," a violent crime initiative, and reallocation of resources to white-collar crime with emphasis on FHA single-family mortgage fraud. In fiscal year 2003, OI successfully phased out the OSH initiative and replaced it with a renewed emphasis concentrating on white-collar fraud investigations. Agents and auditors were trained in the techniques needed to conduct investigations of property flipping, predatory lending, and loan origination fraud. Single-family loan fraud was the investigative priority during fiscal year 2003 and 2004. That priority continues for fiscal year 2005. Our work will focus on various fraud perpetrated by title companies, loan officers, mortgage companies and

brokers, real estate agents and brokers, closing attorneys, appraisers, builders, and nonprofit entities, who, through a variety of schemes, submit fraudulent loan applications, appraisals, and other falsified documents and use straw-buyers, forgers, equity skimmers, and co-conspirators to engage in extensive fraud schemes.

From 1999 through 2002, FHA lost \$7.42 billion. During fiscal year 2002, the FHA single-family program accounted for 509 Judicial Actions and \$54 million in recoveries, which was 60 percent of OI's total Judicial Actions for all programs and 90 percent of OI's total recoveries for all programs.

Investigative efforts on single-family cases in fiscal year 2003, through May 31, 2003, involve 5,115 possible subjects, 28,691 FHA insured properties, and estimated mortgage values totaling \$1 billion. These cases are being worked in coordination with 311 Assistant United States Attorneys and approximately 30 percent are being worked with other Federal law enforcement agencies.

5. OFFICE OF MANAGEMENT AND POLICY (OMAP)

a. Employment and Responsibilities

The OMAP provides OIG-wide administrative support, including budget and financial management, human resources management, employee training, internal policy development, ADP and automated office support services, reports preparation, and records management. It also oversees the OIG Internal Management Assessment Program and is responsible for the OIG Hotline operation.

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 undertaken a major initiative to issue new or updated policies and guidance in these two areas. 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 four evaluations per year, so that each Region is evaluated at least once every 3 years. As mentioned above, OMAP is responsible for the Hotline function and its 6 FTEs. Over the last 2 years, the Hotline staff has received, processed, and evaluated over 21,000 inquiries/ complaints per year.

As part of an overall effort to enhance mission performance, the OMAP Information Systems (IS) staff has made significant progress in providing access to HUD databases and applications directly from seat management computers. Through a User Advisory Group with representation nationwide, the IS staff has implemented system changes quickly in response to user concerns. In addition, the hiring of an IS Security Manager has strengthened the security and integrity of the OIG network. Currently, the OIG is pursuing an MIS to provide senior managers with the information they need for effective decision-making and audit and investigative management. The workflow applications originally deployed in conjunction with seat management were designed as audit/case management work tools for Auditors and Investigators, and were not optimized for management reporting. OIG needs a system that meets the broad reporting requirements of OIG, including performance measures, GPRA, and Semiannual Reports to the Congress. With a well-designed MIS, OIG will be able to respond quickly and effectively to requests for information from any source.

The OIG has also contracted with the U.S. Department of Treasury, and the 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. 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.

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 as well as in the ten Regions and associated outlying offices across the United States and Puerto Rico.

Office of Inspector General

As a result of its initial Strategic Planning efforts, OIG has decided to institute an Inspections and Reviews function. This group will conduct independent inspections of HUD programs and operations. It will also participate in collaborative studies and projects with HUD program staff. The OIG plans to align more of its work with the Department's Strategic Plan and has a goal of contributing to HUD achieving its goals dealing with program accountability. The inspections unit will also conduct research into OIG databases to develop insight to improving OIG effectiveness and efficiency.