

# DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

## Office of Inspector General

### SALARIES AND EXPENSES

(Dollars in Thousands)

	2020*	2021			2022		
	Actuals	Carryover	Enacted	Total	Carryover	President's Budget	Total
<b>Personnel Services</b>	<b>\$98,347</b>	-	<b>\$105,491</b>	<b>\$105,491</b>	-	<b>\$110,885</b>	<b>\$110,885</b>
<b>Non-Personnel Services:</b>							
Travel	691	-	1,757	1,757	-	2,678	2,678
Transportation of Things	1	-	-	-	-	-	-
Rent and Utilities	6,841	-	6,977	6,977	-	6,994	6,994
Printing	2	-	2	2	-	2	2
Other Services/Contracts	20,093	-	19,120	19,120	-	18,528	18,528
Training	286	-	476	476	-	490	490
Supplies	330	-	333	333	-	337	337
Furniture and Equipment	1,219	-	1,108	1,108	-	1,119	1,119
Claims and Indemnities	198	-	250	250	-	250	250
<b>Total, Non-Personnel Services</b>	<b>\$29,661</b>	-	<b>\$30,023</b>	<b>\$30,023</b>	-	<b>\$30,398</b>	<b>\$30,398</b>
Financial Statement Audit	\$1,669	\$4,312	\$1,686	\$5,998	-	\$5,717	\$5,717
Carryover	\$8,331	-	-	-	-	-	-
<b>Grand Total</b>	<b>\$138,008</b>	<b>\$4,312</b>	<b>\$137,200</b>	<b>\$141,512</b>	-	<b>\$147,000</b>	<b>\$147,000</b>
<b>FTEs</b>	<b>508</b>	-	<b>525</b>	<b>525</b>	-	<b>535</b>	<b>535</b>

\*Includes 2019 Carryover.

## PROGRAM PURPOSE

The Office of Inspector General (OIG) for the U.S. Department of Housing and Urban Development (HUD), is an independent and objective organization, conducting and supervising audits, evaluations, investigations, and reviews relating to the Department's programs and operations. The OIG promotes economy, efficiency, and effectiveness in these programs and operations while also preventing and detecting fraud, abuse, and mismanagement. As an organization we are committed to keeping the HUD Secretary, the Congress, and our stakeholders fully and currently informed about problems and deficiencies and the necessity for and progress of corrective action.

The work of the Office of Inspector General is important to the Department's success in fulfilling its Strategic Plan to address the Secretary's mission priorities, management challenges, and mission related goals. The OIG works to ensure that our resources and activities encompass the issues and concerns most critical to the Department. Stewardship of taxpayer resources is one of the Inspector General's highest priorities, ensuring funding is appropriately utilized, properly managed, and achieving the outcomes stakeholders require.

## BUDGET OVERVIEW

The 2022 President's Budget requests \$147 million for the Office of Inspector General, \$9.8 million more than the 2021 enacted level. The Budget reflects total funding of \$147 million, \$5.5 million

more than the 2021 total funding (carryover and new authority). The Budget seeks the resources necessary for the OIG to continue delivering the impactful investigations, audits, evaluations, and reviews that executive branch and congressional stakeholders require. The Budget would also provide necessary support for Congressionally-mandated activities, including the HUD consolidated financial statement audit, information security audits, evaluations related to the Federal Information System Controls Audit Manual (FISCAM) and Federal Information Security Management Act (FISMA), and Digital Accountability and Transparency Act (DATA) compliance audits.

The Budget represents a 3.8 percent increase in total resources that will support investment in mission critical personnel, contractual resources, non-personnel mission requirements, and inflationary cost increases. The OIG is making investments in the tools and personnel necessary to produce actionable information that increases the effectiveness and success of HUD programs, while rooting out waste, fraud, and abuse that undermine programmatic and stakeholder objectives.

### **Personnel Services (PS)**

The OIG's 2022 personnel services requirements are \$110.9 million, to support 535 full time equivalents (FTEs), or \$5.4 million more than the 2021 enacted appropriation of \$105.5 million. This funding represents the necessary requirements to increase total staffing by 10 full-time equivalents (FTEs) over 2021 Enacted and \$2.0 million for various strategic investments in the oversight capabilities of the OIG, address the inflationary costs associated with our current staffing base of \$3.2 million, and a small increase of \$158 thousand in other personnel costs including workers compensation, transit subsidy, and award funding for OIG staff.

**Inflationary Adjustments:** Based on the assumption of a 2.7 percent COLA being used for all HUD salary and expense accounts in 2022, standard benefit inflation cost increases, and a 1.1 percent increase to the Federal Employee Retirement System (FERS) agency contribution the OIG projects an increase of \$3.4 million in the cost to support the personnel base of 535 FTEs.

**Government National Mortgage Association (GNMA):** The Budget funds three additional FTEs with personnel requirements of \$608 thousand dedicated to increasing oversight of GNMA. We believe additional audit personnel are critical to ensuring adequate resources to oversee and properly monitor GNMA's sizable operations.

GNMA has an outstanding portfolio of guaranteed mortgage-backed securities (MBS) valued at nearly \$2.1 trillion. Majority of the MBS consist of FHA-insured mortgages. Considering the size and significant role GNMA's MBS program plays in the housing market and economy at large, the OIG would like to devote the critical resources necessary to study, assess, and review critical aspects of the program. This includes GNMA's Master Subservicer contracts, the implementation of its new Digital Mortgage pilot program, as well as continuing our initial work on assessing nonbank counterparty risk. New FTEs would also take on the role of risk assessing GNMA's programs and operations annually and coordinating with GNMA leadership to maintain a current understanding of their policy goals and direction. Both efforts will be critical to planning future OIG work and developing appropriate work products in areas such as:

- Oversight of issuer compliance with the MBS guidelines and troubled issuers
- Pool and loan package certification
- Pool and loan package administration
- Mortgage delinquency and default as it relates to the GNMA MBS risk profile
- Evaluate GNMA's financial management of its Nonperforming Loan (NPL) portfolio

Overall, the increase in resources dedicated to GNMA oversight will help determine individual or overall issuer compliance with MBS program requirements.

**Fair Housing and Equal Opportunity:** The Budget funds three additional FTEs with personnel requirements of \$608 thousand that will increase the OIG's involvement with Fair Housing and Equal Opportunity (FHEO) and monitoring the Department's enforcement of FHEO programs. The OIG identified Fair Housing and Equal Opportunity as a Priority Oversight Area in 2019 and increasing our organizational footprint in this area is necessary to execute on the OIG's short- and long-term strategic planning goals.

HUD's Office of Fair Housing and Equal Opportunity is charged with implementing and enforcing laws to eliminate discrimination, promote economic opportunity, and achieve diverse and inclusive communities, including the Fair Housing Act, Civil Rights Act of 1964, and the Americans with Disabilities Act of 1990. Considering the sizable and sprawling mission of the FHEO programs the OIG believes there is a significant role to play in assisting the Department to ensure that they are meeting internal goals, informing external stakeholders of possible programmatic shortcomings, and analyzing the emerging risks in the fair housing arena.

The OIG aims to stand up a cross-functional team of investigators, lawyers, auditors, and evaluators to focus on comprehensive Fair Housing work going forward. Currently an auditability survey is underway that will provide insights into the Fair Housing program and create a roadmap for future in-depth reviews that will be beneficial and insightful to both internal and external stakeholders.

**OIG Management Information Systems:** The Budget funds two additional FTEs with personnel requirements of \$405 thousand that will be dedicated to overhauling and improving the OIG's criminal case information system, audit and evaluation engagement management systems, hotline data collection system, and other network architecture and security enhancements. The OIG has managed to incrementally upgrade and adjust the current array of management information systems in an ad hoc nature that has allowed for continuity of operations but little growth in operational capabilities. This request would allow for the onboarding of information technology staff with the necessary skill sets to fully overhaul these systems and create the enterprise-wide approach to management data analysis that will allow for better more effective strategic decision making.

By investing personnel resources into the development of these systems the OIG believes we will gain the ability to better monitor, analyze, and act on the underlying data created during the oversight process. The overhaul of our audit, evaluation, and investigation case management systems will allow for senior leadership to see patterns and possible disparities in resource utilization for oversight activities across the organization. This data could prove critical in deploying future resources and identifying organizational risk in the administration of oversight across the OIG. Additionally, with the aging, insufficient, and under-scoped systems that the OIG is currently working from the risk to business operations from system outage, delays in data retrieval, and other efficiencies limiting issues are persistent. Enhanced systems built to fit the OIG's current mission will expand investigative, audit, evaluation, and review capabilities with new features such as mobile connectivity, collaboration, and cloud accessibility, as well as better methods for fulfilling complex legal discovery and government archiving requirements.

Additionally, the OIG has contracted with the National Center for Disaster Fraud at Louisiana State University as a shared service partner to function as the front-line representatives answering incoming calls to the OIG's hotline. The new information technology (IT) personnel will play a critical role in syncing the data from the hotline to other Office of Information Technology (OIT) systems allowing for better and more comprehensive resolutions to reports of criminal activity from the public and whistleblowers.

Over time the OIG expects this staff will eliminate some of the need for developer functions currently contracted for at a rate that exceeds projected long-term personnel cost estimates. In addition, by

bringing these functions in house the OIG will create an institutional knowledge base and level of experience that will further IT enhancements into the future.

**Rapid Response Personnel:** The Budget funds two additional FTEs with personnel requirements of \$405 thousand that will be part of a dedicated group within our Office of Evaluation that are tasked with responding to immediate vulnerabilities to the Department much like the OIG has experienced during the COVID-19 pandemic. Additional FTEs will expand the current capacity of our evaluation staff to respond to an array of emerging issues identified through data analytics, brought to the OIG's attention by the Department, from the Congressional requests, or from media coverage. By having this dedicated staff, we hope to reduce the turnaround time for reporting on enterprise-level risks, immediate health and safety concerns, or otherwise sensitive matters to both the Department and external stakeholders. Additionally, by having staff dedicated to responding to immediate vulnerabilities we ensure that other OIG staff can remain focused on oversight activities with wider breadth and depth that require longer timelines to complete.

Examples of this kind of work include the mortgage forbearance reporting that alerted the Department and the Congressional stakeholders to the disparate information FHA lenders were providing to borrowers. This product had a tangible effect for the public at large by alerting lenders that information provided was inaccurate so they could take corrective action to assist homeowners in real-time.

### **Non-Personnel Services (NPS)**

The OIG's 2022 non-personnel services requirements are \$30.4 million or \$375 thousand more than the 2021 enacted appropriation of \$30 million. This increase represents the requirements associated with normal inflationary adjustments to support OIG current operations, additional costs associated with 10 new FTEs, investment in contractual services for expertise and skillsets not readily available in the government, and increased costs associated with moving all OIG internet connectivity to Trusted Internet Connection (TIC) initiative compliance.

Overall, the new proposed investments and the cost of continuing operations are offset by reduced requirements associated with GSA forced office moves and one-time 2021 contractual requirements. In total these items represent a \$2.1 million reduction in requirements. Combined with the \$1.5 million in organizational investments (legal services and TIC compliance) outlined in this section, this nets to a \$592 thousand reduction in contractual service requirements in 2022, with an overall increase of \$375 thousand for all non-personnel requirements.

**Inflationary Adjustments:** Non-personnel inflationary adjustments including increases to travel, training, rent, supplies, equipment, and other normal operational costs total \$76 thousand for 2022.

**Travel and Training:** For the OIG to be effective, we must train our staff members on the intricacies of HUD's programs and on the most effective methods for performing oversight of those programs. As the OIG's caseload becomes increasingly more complex – and particularly as it becomes more data driven – ensuring that our staff has the knowledge to operate in this changing environment will be key to our success.

Due to the COVID-19 pandemic 2020 travel was considerably constrained, while we expect 2021 travel requirements to increase the current projection is for overall travel utilization to remain well below the long-term OIG average. Travel requirements in 2022 represent a return for OIG staff to normal pre-pandemic travel patterns. This return to normal represents approximately \$832 thousand or 90 percent of the increase in travel requirements. The OIG is requesting an additional \$59 thousand to support the travel and training operational costs associated with new personnel in 2022.

**Specialized Consulting and Legal Services:** The OIG is proposing an investment of \$500 thousand for expanded use of expert consulting and legal services related to mortgage-backed securities (MBS), multiclass transactions managed by GNMA, and complex secondary market legal issues. The OIG believes that the significant role GNMA plays in the housing finance market warrants both investment in OIG personnel as well as outside resources with specialized expertise. The OIG is planning to award a contract for these services in 2021 with an initial investment of \$500 thousand. Based on projected utilization, need, and expenditures the OIG would like to expand this investment to \$1 million in 2022.

The OIG will use the contracted experts to educate and advise our staff on residential MBS market to enhance our oversight of HUD's housing finance and mortgage insurance programs. This contract will be utilized as needed to supplement the current legal and program oversight staff in a way that over time could be more cost effective than hiring full-time government personnel with experience in housing finance and secondary market transaction, as those individuals carry a high risk of leaving the organization for the private sector. Overall, the OIG believes this investment would have increasing returns to scale for both the Department and external Congressional stakeholders.

**Trusted Internet Connection (TIC) Initiative:** Based on the guidance and standards set forth by the Office of Management and Budget (OMB) the OIG is currently out of compliance with the government wide mandate to convert all organizational internet connectivity to a Trusted Internet Connection (TIC). The OIG under the direction of our Chief Information Security Officer (CISO) is working to gain access to the GSA Enterprise Infrastructure Solutions contract vehicle to begin the procurement of TIC compliant internet service for the entire OIG serving both the headquarters-based Washington, DC data center and the Disaster Recovery Facility (DRF) data center located in Denver, Colorado. We expect this procurement to be in place by the first quarter of 2022.

The annual cost increase to achieve TIC compliance is expected to be \$1 million. This represents a considerable increase over current internet service requirements but also places the OIG in compliance with the OMB mandate while substantially enhancing the organization's information security posture. The TIC services include constant network monitoring to thwart any potential cyber-attack and alert the organization of possible vulnerabilities. Based on the recent security breaches experienced by federal agencies and the need to achieve organizational compliance this is a top priority for the OIG. To both ensure adequate information security protocols and bring the organization into compliance with OMB mandates.

### **HUD Consolidated Financial Statement Audit**

Beginning in 2020 the OIG has been required to procure accounting support services to perform the audit of HUD's consolidated financial statements. As of December 2020, the OIG has awarded two contracts that in aggregate provide for the full outsourcing of the financial statement audit including GNMA, FHA, and the HUD consolidated portion. External auditors will entirely conduct the 2021 audit with the oversight of OIG financial audit staff overseeing the contractors and overall contract performance.

The total cost of outsourcing the 2021 financial audit is \$6 million. As shown on the spending category table the 2021 expenditure is split between two-year funding appropriated in 2020 that was carried forward into 2021 and funding earmarked for the financial audit in the 2021 OIG enacted appropriation. Assuming contract performance continues to meet predefined metrics and the 2021 audit is completed successfully the OIG expects to exercise the optional renewal of for both contracts in December 2021 (FHA/ HUD Consolidated) and March 2022 (GNMA). The total cost for these renewals in 2022 is \$5.7 million.

## KEY OPERATIONAL INITIATIVES

The OIG's mission is to protect the integrity of HUD programs and to promote their efficiency and effectiveness. To deliver the critical and necessary oversight in the most vital areas of HUD operations the OIG is undertaking an array of initiatives that will improve organizational effectiveness.

- The OIG is proposing a realignment of the Planning, Performance, Risk Management, and Engagement Office (PPRiME) division within the Office of Evaluation to create the office of the Chief Strategy Officer (CSO) within the Immediate Office of the Inspector General to assist the IG with developing and executing strategic plans and initiatives, centralize oversight strategy, manage OIG organizational risk, and increase OIG quality assurance. By elevating the strategic function within the OIG, we can ensure that oversight planning and execution are intimately connected in a way that improves recommendations and reporting provided to the Department and external stakeholders. The proposed realignment will not create any current or future budget requirements.
- As an organization the OIG is improving our ability to leverage data and technology by incorporating analytics on HUD programs and agency wide trends produced by our Integrated Data Analytics Division (IDAD) into the audit, evaluation, and investigation work conducted by the OIG. To ensure that IDAD is positioned in a way that increases utilization of the data they produce the OIG is proposing realigning the division from within the Office of Evaluation to the Immediate Office of the Inspector General and reporting directly to the Deputy IG. The analytics conducted by IDAD can improve organizational strategy and the identification of emerging threats to the Department. This data should drive the OIG's oversight planning, strategy, and execution. Effectively leveraging this information can save valuable time, resources, and help the organization focus on the most important investigations, audits, evaluations, and reviews. The proposed realignment will not create any current or future budget requirements.

By instituting these organizational improvements and creating a more robust structure for self-assessment and evaluation of priorities, the OIG has been able to better assess where to focus oversight efforts. In addition, we believe these proposed realignments will enhance the OIG's oversight work in the current priority objectives:

- Ensuring Assisted Housing is Habitable and Hazard-Free
- Creating Access to Affordable Housing
- Preventing Homelessness
- Preventing Discrimination in Housing
- Protecting the Mortgage Insurance Funds
- Providing a Stable Housing Finance Platform
- Promoting Accountability and Effectiveness in Disaster Response and Recovery
- Managing Risk in Grant Programs
- Sustaining Progress in HUD Finance and IT Transformation
- Promoting Integrity and Efficiency in HUD's Operations (Human Capital Management, Contracting and Procurement, Ensuring Ethical Conduct)

By focusing the work of the OIG in these areas, we believe this represents the best way to partner with the Department in achieving the Administration's priorities to strengthen the federal housing safety net, advance housing equity, strengthen HUD's internal capacity, increase access to affordable housing, and promote environmental justice within the housing sector.

**Office of Audit Program Realignment:**

Starting in 2019 the OIG began to overhaul the organization wide strategic approach to conducting our oversight responsibility. This process started by aligning oversight planning with the areas deemed as the top management challenges facing the Department. The strategic planning process instituted over the last two years has allowed for improved targeting of risk in the Department, cross collaboration across offices, and an overall improvement to the OIG's ability to produce impactful and actionable reporting.

The next step in the strategic overhaul of the OIG is within the Office of Audit (OA). The audit function and corresponding personnel represent over 40 percent of all OIG staff. To better effectuate the long-term shift in the OIG's oversight work, the Office of Audit will be realigning the focus of its staff from a regional model to a program-focused model, where our staff will be assigned primarily to audits of specific HUD program offices. This realignment will not require any additional personnel or resources to accomplish, as we are merely realigning the way individual field offices conduct their oversight mission and concentrate their personnel.

The realignment calls for three distinct groups of offices spread across the country with jurisdiction over individual HUD programs, with specialization in (1) Assisted Housing and Community Planning and Development programs; (2) Housing Insurance and Finance, and Fair Housing Programs; and (3) Financial Management, Information Technology, and Operations.

The proposed realignment will enhance coordination with Department program offices by applying a national perspective and footprint to the oversight of all HUD programs. Additionally, this change should allow for better planning and use of resources along with enhancing deep subject matter expertise and institutional knowledge across the OIG's audit workforce. The OIG believes that the OA realignment is the next natural step in leveraging the full potential of our workforce to deliver the vital information necessary for improving HUD programs, to the Department, the Administration, and the Congressional stakeholders.