

**DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT  
OFFICE OF INSPECTOR GENERAL**

*(Dollars in Thousands)*

	<b>FY 2018 Actuals</b>	<b>FY 2019 Annualized CR</b>	<b>FY 2020 President's Budget</b>
<b>Personnel Services</b>	<b>\$98,136</b>	<b>\$100,037</b>	<b>\$100,780</b>
<b>Non-Personnel Services</b>			
Travel	3,454	3,489	3,639
Rent and Utilities	6,821	6,665	6,715
Printing	1	1	1
Other services/Contracts	17,784	16,593	16,946
Training	361	368	376
Supplies	296	275	280
Furniture and Equipment	382	348	355
Claims and Indemnities	278	50	50
Financial Transfers (CIGIE)	282	256	258
<b>Non-Personnel Services Subtotal</b>	<b>\$29,659</b>	<b>\$28,045</b>	<b>\$28,620</b>
Working Capital Fund	-	-	-
<b>Grand Total</b>	<b>\$127,795</b>	<b>\$128,082</b>	<b>\$129,400</b>
<b>Associated FTEs</b>	<b>559</b>	<b>573</b>	<b>573</b>

## **1. Program Purpose and Budget Overview**

The mission of the Office of Inspector General is not only to prevent and detect fraud, waste, and abuse in the programs and operations of the Department of Housing and Urban Development (HUD) but also to promote economy, efficiency and effectiveness. The OIG does this by conducting independent investigations, audits, and evaluations. The work performed by investigators, auditors, and evaluators, provides the means to keep the Secretary and the Congress fully and currently informed about the Department's challenges while also identifying best practices. After identifying weaknesses, the OIG makes recommendations to improve operations and monitors departmental progress on corrective actions. 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.

The 2020 President's Budget of \$129.4 million is \$1.3 million more than the 2019 Annualized Continuing Resolution (CR) level. The 2020 Budget provides the necessary resources to support congressionally mandated activities including the HUD consolidated financial statement audit, information security audits and evaluations related to FISCAM and FISMA legislation, DATA act compliance audits, and other legislatively required audits and evaluations. In addition, these resources will ensure the OIG can adequately address the top management challenges within HUD, including the prevention of fraud and corruption in public and multi-family housing, HUD grant management oversight, ensuring HUD is taking the proper steps to guarantee safe and lead free housing for families and children, and evaluating HUD IT modernization efforts to ensure cybersecurity compliance.

The OIG will be able to support a base of 573 full-time equivalents in 2020, this staffing level represents no change compared with 2019 but allows for strategic backfilling to ensure mission critical personnel is maintained. The personnel services funding increase of \$743 thousand is necessary to manage increased payroll expenditures related to standard benefit cost inflation. The OIG will utilize the non-personnel related increase of \$575 thousand to increase the scope and scale of OIG high priority initiatives. This includes increased travel requirements, contractual services, and IT infrastructure investment that support OIG operations.

Addressing the presence of mold, lead, and other hazardous materials in public housing is one of the highest priorities for the OIG in combination with improving HUD programs responsible for inspecting and remediating these serious systemic risks to the nation's public housing stock. The dangers posed to HUD programs by inadequately responding to this looming risk of unsanitary and unsafe housing are incalculable. Ensuring HUD is conducting adequate inspections and implementing best practices into programs effected by possible safe housing risks is a top concern for all HUD stakeholders. OIG oversight and increased engagement on this issue could mitigate the long-term costs associated with inadequate action from the Department. One statistic that perfectly encapsulates the risk to HUD housing programs is approximately 17,000 HUD properties are located within one mile of an EPA Superfund site. This metric alone speaks to the magnitude of inadequately responding to this enterprise risk. Increasing the effectiveness of HUD inspections is a challenge the OIG is working to address through all means possible including program evaluations, audits, and investigations. The

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first surge in this effort came in 2019 with the deployment of the Joint-Housing Authority Review Team (JHART) initiative. In November of 2019, the OIG created a cross-component team to review the operation of housing authorities designated as “troubled” by HUD PIH. Teams deployed to assess the physical condition of public housing units as well as the fiscal and managerial operations of these troubled housing authorities. The goal of these reviews was to identify and address emergency abatement situations, understand systemic problems facing PHAs, and determine whether full criminal investigation or programmatic reviews are necessary. The operations undertaken this fiscal year represent the beginning of this new approach to assessing and addressing substantial risks to public housing. The OIG foresees the continued and increased deployment of agents, auditors, and evaluators all with the common mission of preventing failures like Alexander County, East St. Louis, or NYCHA from happening in the future. This type of joint task force approach to combating the problem of unsafe housing requires the deployment of numerous OIG staff and assets, the increased funding requested would provide the resources to support personnel in the field while also allowing for an increased OIG presence overseeing program augmentations from the Department. The 2020 Budget provides for the mission critical resources to further the effectiveness of this OIG initiative.

The OIG is beginning to leverage emerging technologies to be more proactive and efficient in executing our oversight mission. The resources provided in the 2020 Budget will allow the OIG to make investments in hardware, software, and training necessary to conduct forensic examinations in support of our criminal investigations. As this investigative capacity develops, retention of experts in this field will be necessary to retain and build knowledge, as well as to apply these new tools in ways that become a force multiplier for the OIG. In a similar fashion, the OIG plans to grow its eDiscovery and digital investigation capabilities by providing technology to each program function to collect, review, and analyze large amounts of data. The use of such technology improves the precision and speed of oversight efforts, particularly investigations. To support these added systems as well as the nationwide digital infrastructure the OIG anticipates implementing a cloud-based solution that will decrease long-term data center costs while also ensuring the OIG wide area network is robust enough to handle current and future mission needs. This investment will provide connectivity, communications, and access to information from any location. The 2020 Budget supports the staff necessary to lead this effort and the funding necessary to make long-term investments in new digitally based tools that will proliferate the reach and capabilities of the OIG.

In the wake of the 2008 financial crisis the OIG has become increasingly concerned with monitoring and acting on HUD programs that carry inflated systemic risk to the Federal Housing Administration (FHA) and Mutual Mortgage Insurance (MMI) fund. The OIG believes there are serious structural issues with the Home Equity Conversion Mortgage (HECM) program that raise questions as to whether the program is self-sustaining or actually functions as a subsidy program as it is defined. HUD has taken several steps to fix problems in the HECM program but some concerns seems to be intractable and a failure of the HECM program model. For the past several years, HECM program expenses have far outstripped revenues at a staggering pace. The OIG calculates that the HECM program has required approximately \$14.7 billion in subsidies from the forward loan program since 2009. Because the HECM

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program moved into the MMI fund in 2008, the revenues of the single-family forward program have offset these losses. Moreover, the budget formulation process hides the HECM program losses. Each year HUD estimates that the HECM program will have a “negative subsidy” meaning the true cost of the program remains hidden in the appropriation process. In executing the program HUD has consistently re-estimated the HECM loan portfolio to have a “positive subsidy”, or put a different way, the program is running at a deficit. The OIG plans increasing and extensive oversight work in this important and systemically vulnerable area. The 2020 budget supports the OIG’s work in this area and allows for retention of staff with the necessary skill set to address these risks to HUD, FHA, and the health of the MMI fund.

The 2020 Budget will support an expanding focus on oversight of counterparty risk and non-bank lending which pose significant institutional risk for Ginnie Mae and FHA. As the Department navigates the risk posed by the shift to nonbank lending and servicing, OIG will look to initiate work in the high-risk areas of the various portfolios within Ginnie Mae and FHA. Both entities are undertaking efforts to modernize its mortgage origination, servicing, and secondary-market platforms to account for technological innovations like digital mortgages and blockchain, which will require OIG to develop expertise and remain current in these areas to provide quality oversight.

The HUD consolidated financial statement audit remains an increasingly resource-intensive undertaking for the OIG in both staff hours and operational costs associated with the audit. HUD is one of two Cabinet level Departments that have failed to achieve a clean financial statement audit opinion; this situation creates a sense of urgency for the Department to address outstanding weaknesses and for the OIG to evaluate the corrective actions taken. Remediation undertaken by HUD CFO to resolve previous audit findings creates the need to review and evaluate solutions to ensure they are addressing material weaknesses. This increase in financial audit workload will require resources and staffing to adequately carryout the financial statement audit. The OIG recognizes the immense importance of delivering a comprehensive and unquestionable assessment of HUD, FHA, and Ginnie Mae’s financial health; these increased resources will provide the capacity to achieve this objective. The OIG plans to evaluate the best strategy for conducting the financial statement audit by examining internal resources and assets against the demand presented by the Department’s complex financial position and systems.

## 2. Key Operational Initiatives

- In 2018 the OIG released an updated five-year strategic plan spanning the period from 2018 – 2022. The first of five strategic goals is to further HUD’s mission success, with specific objectives aimed at helping the OIG assist HUD in developing an effective and efficient means of meeting its housing and community development goals and ensuring the integrity and accountability of program funds and operations. In service of this goal, the OIG has begun to reexamine its effectiveness and relationship with HUD. With new insights, the OIG is reinventing its oversight work planning process and rejuvenating the process for developing an annual report on the top management and performance challenges facing HUD. In addition, the OIG launched an Enterprise Risk Management (ERM) program to evaluate HUD’s risks, which includes identifying emerging issues and large systemic risks. Improving these processes and refocusing the OIG’s oversight work on HUD’s top management risks creates more rigor in ensuring the focus of the OIG’s work is examining HUD’s longstanding issues from different perspectives and identifying new and more efficient solutions given resource and staffing constraints. By identifying emerging threats to HUD operations as they develop the OIG can act quickly to prevent fraud and programmatic waste before such risks grow in magnitude. Addressing threats to HUD in their infancy will also benefit the OIG by reducing the staffing and non-personnel resources required to contain and eliminate potentially significant incidents of waste, fraud, and abuse.
- As part of this organizational strategic revitalization, the OIG will assess the economy, efficiency, and effectiveness of current mission support processes, which include human capital management, information technology, financial management, acquisition, administrative support, and communications. Where necessary the organization will take steps to modernize each process to ensure that it works optimally with a focus on cost effectiveness. An example of this process in action is the steps taken to reduce data center hosting costs, by migrating OIG servers to an in-house facility that is both more secure and is producing cost savings of approximately \$600 thousand annually. The OIG has also realized cost savings and containment by taking an aggressive approach to space footprint reduction. Where possible the OIG has reduced space or renovated existing space to create efficiencies such as desk sharing and hoteling. This focus on cost containment has yielded a roughly nine percent reduction in GSA rent costs from 2016 to 2019.
- The OIG is continually looking for new and innovative ways to improve internal controls and increase transparency in acquisition and financial decision-making. The best example of this is the Acquisition Steering Committee (ASC), which provides an internal check on all procurement decisions to ensure contractual obligations meet strict requirements to deliver a substantial benefit to the agency. A core tenet of the ASC’s charge is to find opportunities to leverage economies of scale for fiscal gain. Where possible the OIG is trying to find enterprise-wide solutions that address an array of organizational needs. By optimizing the commonality of solutions, the OIG can optimize savings for the organization during the procurement process. Using this approach to long term planning the OIG has undertaken projects that will reduce future outlays. An example of this

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is the current effort to refresh applications related to the OIG's evidence tracking and evidence discovery systems. When this project is complete, the OIG will have a more robust and efficient platform that produces cost savings over multiple systems currently utilized.