

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 2009.

APPROPRIATION HIGHLIGHTS

The following table summarizes the funding sources and staffing levels.

	<u>Actual 2007</u>	<u>Enacted 2008</u>	<u>Estimate 2009</u>	<u>Increase + Decrease - 2009 vs.2008</u>
	(Dollars in Thousands)			
<u>Budget Authority</u>				
Funds Available:				
Budget Authority.....	\$81,853	\$112,000	\$115,000	+\$3,000
Transfer from FHA Fund.....	<u>23,760</u>
Subtotal.....	105,613	112,000	115,000	+3,000
2006 Disaster Assistance a/.....	7,700	3,320	0	-3,320
2007 Disaster Assistance b/.....	<u>7,000</u>	<u>7,000</u>	<u>6,320</u>	<u>-680</u>
Subtotal.....	120,313	122,320	121,320	-1,000
Outlays (net).....	110,694	117,000	118,000	+1,000
Full-Time Permanent Appointments (EOY) .	632	650	650	0
Full-Time Equivalents.....	632	650	650	0

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

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

The non-Disaster Assistance fiscal year 2009 estimate of \$115.0 million is \$3.0 million higher than the fiscal year 2008 President's budget. During fiscal year 2006, OIG received Emergency Supplemental funds totaling \$9.0 million for operational costs associated with Hurricanes Katrina, Rita, and Wilma. During fiscal year 2007, OIG received Emergency Supplemental funds totaling \$7.0 million for operational costs associated with Hurricanes Katrina & Rita.

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The OIG developed a strategic plan with the primary goal of helping HUD resolve its major management challenges. The first strategic objective is to "*Contribute to the Reduction of Fraud in Single Family Lending.*" OIG has given priority to audits of Single Family loan origination abuses, rental assistance payment programs, and HUD fiscal systems. The overall objectives of OIG's planned audits in these areas are to aid HUD in ensuring that management reforms are effective and address Congressional and taxpayer concerns about program delivery and financial integrity. Detecting and preventing fraud, waste and abuse are integral components of this work. Approximately 13 percent of audits issued are dedicated to Single Family Programs. A second objective is to "*Improve HUD's Execution of Fiscal Responsibilities.*" The scope of efforts on this objective included evaluations of HUD's management of program delivery and financial and management systems. Audits completed for fiscal year 2007 in all areas reported about \$1.01 billion in monetary results (ineligible costs, unsupported costs, and funds put to better use). A final strategic objective is to "*Reduce Erroneous Payments in Rental Assistance programs.*" All eight Regional Office of Investigation offices (OI) initiated a Rental Assistance overpayment initiative during fiscal year 2005. By late fiscal year 2007, OI was dedicating approximately 33 percent of its resources to the Rental Assistance overpayments initiative. Additional budget justification and estimates follow.

HUMAN CAPITAL

OIG is requesting a fiscal year 2009 level of 650 full-time equivalents (FTEs) that is unchanged from the 2008 President's budget. Although we have received Supplemental Funding for conducting oversight of the \$17 billion relief aid given out in Community Planning and Development grants, we have not increased overall OIG staff. This is in keeping with Congressional report language. We will use about \$3.0 million to stabilize our staffing level at 650 for fiscal year 2007, and to offset labor costs incurred in support of disaster relief oversight. In fiscal year 2007, we incurred approximately 31 FTEs on this effort.

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FUNDING BY OBJECT CLASS

The following table summarizes this request by object class.

	<u>ACTUAL 2007</u>	<u>ENACTED 2008</u>	<u>ESTIMATE 2009</u>	<u>INCREASE + DECREASE - 2009 vs 2008</u>
(Dollars in Thousands)				
Personal Services.....	\$78,350	\$84,083	\$86,703	+\$2,620
Travel and Transportation of Persons.....	4,903	5,021	5,136	+115
Transportation of Things.....	134	179	183	+4
Rent, Communications, and Utilities.....	6,596	6,754	6,910	+156
Printing and Reproduction.....	45	46	47	+1
Other Services.....	14,861	15,218	15,306	+88
Supplies and Materials.....	577	431	441	+10
Furniture and Equipment.....	283	230	235	+5
Insurance Claims and Indemnities.....	<u>24</u>	<u>38</u>	<u>39</u>	<u>+1</u>
Subtotal.....	105,613	112,000	115,000	3,000
Disaster Assistance P.L. 109-234.....	4,380	3,320	0	-3,320
Disaster Supplemental P.L. 110-28	<u>...</u>	<u>680</u>	<u>4,000</u>	<u>3,320</u>
Total Obligations.....	110,153	116,000	119,000	+3,000

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

CHANGES FROM FISCAL YEAR 2008 TO FISCAL YEAR 2009

Descriptions of the various object classes are provided below. Overall, Personal Services; Rent, Communications, and Utilities; Travel; and Other Services object class categories reflect the primary increases above fiscal year 2008, while all other object class categories remain about the same.

Personal Services

The fiscal year 2009 estimate of \$86.7 million reflects an increase of \$2.6 million above fiscal year 2008. The increase of \$2.6 million above the fiscal year 2008 President's budget reflects an increase primarily for the pay raise and associated costs.

Travel and Transportation of Persons

The OIG staff travels extensively to carry out their audit and investigative responsibilities. The Audit staff travels to program participants and contractor offices to conduct project, contract, and financial audits. Investigation staff requires extensive travel to interview witnesses and subjects of investigations, to examine records, and to gather evidence through surveillance and other law enforcement activities. In addition, funds are necessary for training travel to support our refocused investigation priorities and to send newly hired replacements to the Federal Law Enforcement Training Center (FLETC), IG Academy and other periodic in-house training. The fiscal year 2009 estimate of \$5.1 million reflects an increase of \$0.1 million above fiscal year 2008 for inflation.

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 2009 estimate of \$0.2 million is about the same as fiscal year 2008.

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 2009 estimate of \$6.9 million reflects an increase of \$.2 million above fiscal year 2008 for inflation.

Printing and Reproduction

Funding in this object class is for printing and reproduction services costs, and related composition and binding operations performed by or through the Government Printing Office. The OIG Semiannual Reports to Congress are covered under this classification. The fiscal year 2009 estimate of \$0.1 million remains about the same as fiscal year 2008.

Other Services

A multitude of activities are funded under this object class, including professional training and development of OIG personnel, audit services, general support, and information technology (IT) 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 agreement is with the Department of Justice for access to the National Crime Information Center (NCIC) data related to OIG investigative activities. The OI and OA are also obligated to support the President's Council on Integrity and Efficiency (PCIE). OIG has agreements with the Bureau of Public Debt for personnel, contracting/procurement services, and investigative background checks of OIG staff, the National Finance Center for payroll processing, and other smaller agreements.

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

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

The fiscal year 2009 estimate of \$15.3 million is an increase of \$.1 million above fiscal year 2008 for enhancing OIG Investigation and Audit Management Tracking Systems and providing additional security to meet OMB security requirements including encryption, monitoring and filtering tools, and reduction of the use of social security numbers and personal identification information.

Supplies and Materials

Funding under this category cover costs associated with the purchase of office supplies; training supplies; automation-related supplies; subscriptions to professional magazines, publications and research materials; ammunition; and other items that are generally consumed or expended within one year after purchase. The fiscal year 2009 estimate of \$0.4 million remains about the same as fiscal year 2008.

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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 2009 estimate of \$0.3 million remains about the same as fiscal year 2008.

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 2009 estimate of \$0.1 million remains about the same as fiscal year 2008.

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.

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.

In order to bring HUD's OIG more in line with other larger OIGs, one Senior Executive was assigned the responsibilities for an Inspections and Evaluations Division, utilizing resources from the current Forensic Auditor staff. An Annual Plan was developed for fiscal year 2007 and the Division issued significant reports on such topics as to the extent of college students receiving Section 8 subsidies and effectiveness of Mortgagee Letters concerning Social Security Number Validation for FHA Single Family Insurance. In addition to investigations authorized under the Inspector General Act, OI also investigates fugitive felons receiving benefits from HUD programs, cold cases of missing and exploited children, and sexual offenders receiving benefits from HUD's housing assistance programs and engages in other law enforcement activities required by the U.S. Department of Justice (DOJ), support of COOP events, and other special cases assigned by the President's Council on Integrity and Efficiency (PCIE).

PERFORMANCE

For fiscal year 2007, OIG's results totaled \$1.347 billion, which includes questioned costs identified in Audit Reports, investigative recoveries/receivables, and recommendations for funds put to better use. As a result, OIG exceeded its return on investment goal of 8 to 1.

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

WORKLOAD

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

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

1. IMMEDIATE OFFICE OF THE INSPECTOR GENERAL

The Inspector General reports directly to the Secretary and Congress, and has authority to inquire into all program and administrative activities of the Department. Inquiries are designed to provide constructive advice for Departmental management, to promote economy and efficiency in the administration of HUD programs, and to prevent and detect waste, fraud, and abuse in HUD programs and operations. Currently, the Inspector General serves as the President's Council on Integrity and Efficiency (PCIE) board member that oversees the Inspector General Institute.

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 contractors and program participants doing business with the Department. Auditors assigned to three Headquarters Divisions and eight Regional offices, plus a newly created Gulf Coast Region, totaling 33 offices nationwide, are responsible for conducting a variety of audits in all HUD program areas. HUD's net outlays were \$42.5 billion in fiscal year 2006. In terms of Federal exposure, HUD is one of the largest Federal agencies because of FHA insurance activities. FHA currently has 3.7 million insured Single Family mortgages and 12,156 insured Multifamily projects in its portfolio with an outstanding mortgage insurance of approximately \$399 billion. In addition, Ginnie Mae, a wholly owned government corporation with HUD, guaranteed \$85.1 billion in mortgage-backed securities during fiscal year 2007. Approximately 45,000 organizations deliver HUD programs nationwide. The Department also incurs operating expenses for approximately 8,716 employees, 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 OIG's Semiannual Reports to Congress continue to show significant audit results. OA's long-range strategy is to perform audit work that assists the Department in addressing the President's Management Agenda (PMA). This Agenda includes many governmentwide issues that all Federal agencies must address as well as specific HUD management challenges. OIG's work with the Department on these initiatives has paid off. Over the past year, the Department has made significant progress in addressing these challenges and has demonstrated this by obtaining a "green score" on the areas of Improved Financial Performance. While this is a considerable accomplishment, there is more to be done. Both the OA and the GAO have identified specific HUD challenges related to the PMA. The size and diversity of HUD programs has led to staffing and information systems challenges and resulted in a variety of internal control weaknesses identified by OIG audits. These weaknesses are compounded by the fact that 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 Congress, OA will: (1) emphasize the review and oversight of legislative, regulatory and policy changes resulting from an ever changing HUD and program environment; (2) pursue ways to improve existing methods or suggest new methods of conducting HUD's business; and (3) focus greater attention on those major audit areas that will improve HUD's stewardship of Federal financial resources. Key efforts will include financial audits, information systems and performance reviews, and continued emphasis on combating fraud, waste and mismanagement in HUD programs. In addition, with the possibility of the upcoming FHA reforms and our continued work in the Gulf Coast our work will continue to be impacted.

Review and Oversight. The Department continues to downsize its operations and cope with organizational 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, 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. OA plans to review HUD programs 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 levels in HUD program staffs being reduced, 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: 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.

The following are some of our traditional workload measurements ending September 30, 2007.

- Internal Audit Reports Issued..... 27
- External Audit Reports Issued 112
- Collections from Audit Activities..... \$36 million
- Questioned Costs on Audits Issued..... \$68 million
- Recommendations that Funds be put to Better Use \$947.8 million

OA's strategy is to prioritize audit assignments that will: (1) assess the Department's efforts to address the PMA with emphasis on improving 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 and non-profit grantees.

Our potential audit universe continues to expand with the growth of HUD activity. Additionally, Congress has increasingly tasked the OA with unfunded legislated audit work. Much of the additional work in the last 3 fiscal years was in response to Congress. For example, the Appropriations Committee tasked OIG with audit responsibility for the September 11, 2001 terrorist attacks and for the \$17 billion in disaster assistance provided to the Gulf Coast area as a result of hurricanes Katrina, Rita, and Wilma. The task involves reporting every 6 months for both September 11, 2001 attacks as well as for the progress achieved by HUD in assisting the Gulf Coast area. Additionally, OA increased audits on PHA's administration of the Section 8 Voucher program based on Congressional requests. Further, the Department of Defense Appropriation passed Public Law 110-116, which appropriated \$3 billion for 'Department of Housing and Urban Development - Community Planning and Development Fund', to remain available until expended, to enable the Secretary of Housing and Development to make a grant or grants to the State of Louisiana solely for the purpose of covering costs associated with otherwise uncompensated but eligible claims that were filed on or before July 31, 2007, under the Road Home program administered by the State in accordance with plans approved by the Secretary. In addition to the HUD-specific mandates issued by Congress, all OIGs must meet several governmentwide legislative mandates annually. The two most significant requirements are the financial audits required by the Chief Financial Officers Act and the review of information security policies required by the Federal Information Security Management Act (FISMA).

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

- Performance Audits are reviews of the efficiency and effectiveness of selected HUD management and program operations. These audits are directed at determining the adequacy of management controls and minimizing program risks. These audits are focused on assuring that housing assistance programs are handled efficiently and effectively. Performance audits also include reviews of the records and performance of those organizations receiving financial assistance or benefits from the Department, such as various state and local government grant recipients and sub-recipients, multifamily owners and management agents of insured and assisted projects, mortgage lenders and borrowers, contractors, public housing authorities, and non-profit entities. Performance audits are a means of ascertaining the degree of compliance with applicable statutes, regulations, and agreements under which Federal funds and other benefits are made available. The audits also examine the appropriateness of the disposition of funds granted, loaned, or claimed, and/or the adequacy of participant performance and results.

A major part of the OA staff time is spent conducting audits of high-risk programs and program participants. With a multitude of diverse programs in the Department, there are potentially thousands of audit entities to be reviewed. As each of these assignments is planned, OA will maintain its focus on our strategic plan and on areas related to the PMA. Audit planning is a continuing process that focuses resources on the priorities identified in OIG's strategic plan and areas of greatest current benefit to our customers. Our broader goal in developing an audit plan is to help HUD resolve its Major Management Challenges while maximizing results and providing responsive audits. Because the process is dynamic, the OIG can quickly make adjustments and address new requests throughout the year. Potential review areas are developed through our discussions with program officials; the public, and Congress; our audits in each Region; the annual financial statement audits; and our reviews of proposed legislation, regulations and other HUD issuances. Planning for external audits is subject to numerous factors such as, complaints, request from HUD and Congress, and media attention, all of which cannot be predicted or anticipated. Therefore, the planning of external audits is intended to be flexible to perform the highest priority work on hand. Depending on the volume and nature of audit requests, OIG intends to selectively target high-risk programs and jurisdictions. Priorities have been determined based on the OIG Strategic Plan and areas of interest to OIG stakeholders, particularly Congress. With this in mind, the following types of external audits have been identified as priority areas during this planning cycle. OIG audit managers will focus their audit resources in the following areas.

- o Public and Indian Housing. The Low-Income Program serves 1.2 million households. The Section 8 Voucher Program serves over 1.8 million households. Of immediate concern is the overpayment of Section 8 housing assistance payments since this area is highlighted as part of Goal #1 in the OIG Strategic Plan and is a Congressional priority. As part of an overall OIG initiative, tenant eligibility and accuracy of rental assistance payments will be the audit focus in this program area. In addition, the quality of housing and the cost of administering these programs continue to be a concern that we will continue to address. Also, we plan to continue to conduct audits of PHA development activities carried out by affiliated non-profit entities.
- o Single Family Audits. Single Family lender audits will continue to be a priority due to the abuses being experienced in Single Family programs. A specialized audit program has been developed for the purpose of targeting lenders for audit considering a number of high risks indicators. In addition to being a part of Goal #1 in the OIG Strategic Plan, there continues to be Congressional interest in our audits of the Single Family program. Our work will also focus on internal operations of the program and the areas impacted by legislative reforms.
- o 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.
- o CPD Grantees. Continued concerns over the capacity of entities receiving funding from HUD programs require that audits of such activities be given priority. HUD's emphasis on the "Faith-Based" initiative will increase the level of funding to 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 nonprofits. 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.
- o Hurricane Recovery Audits. Since Hurricanes Katrina, Rita, and Wilma struck the Gulf Coast, the HUD Office of Inspector General has been busy establishing an audit presence in the disaster area to combat fraud, waste, and abuse. The Office of Audit (OA) has established an office, developed an audit plan, and begun reviews in the disaster area. Some of the on-going disaster recovery activities include reviews of: 1) Procedures and Controls of Mississippi's Homeownership Grant Assistance Program; 2) Procedures and Controls of Louisiana's Homeownership Grant Assistance Program; 3) Contract and Cost Compliance Review Mississippi's Homeownership Grant Assistance Program; 4) Procedures and Controls of Louisiana's Homeownership Grant Assistance Program; 5) HUD's Katrina Disaster Housing Assistance Program (KDHP) and Disaster Voucher program (DVP) Determination of Participants' Eligibility.

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- o Information System Audits. The work of the Information Systems (IS) Audits Division has become increasingly important as the Department expands the use of information technology for program delivery with a reduced staff. The areas of focus are financial and systems audits, consultation on system controls, and technical assistance. A considerable portion of the IS work is devoted to supporting mandated Financial Statement Audits by reviewing the general and application controls of automated financial systems. 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 FISMA, involves more extensive testing of security measures. The IS Audit Division assists the Department in establishing controls and standards for error prevention; efficient and effective operations; and deterrents to fraud or abuse during costly system development efforts. The IS 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.
- o Financial Audits include financial statement audits of FHA, Ginnie Mae and HUD. The objective of these audits is to provide reasonable assurance that the entity's financial statements are free of material misstatements and are presented in accordance with generally accepted accounting principles. The OA will continue to complete the consolidated financial audit of the Department using its own staff resources. This audit has enabled the OIG to better grasp the major problems facing the Department, thereby enabling us to target its remaining audit resources on areas of greatest risk. Part of the PMA is to improve financial performance and to develop reliable financial management systems. OIG's financial audits help attain these goals. Another benefit of the financial audit is that it enables OA to evaluate internal controls as a measure of HUD's progress in identifying and solving its management challenges. The Financial Audits Division conducts this audit with staff assistance from all of the OIG Regional offices and the IS Audit Division. Additionally, OA contracts with independent public accountants to assist in the audits of the financial statements of both FHA and the Ginnie Mae. The consolidated financial statement audit requires a major commitment of staff, training, contracting, travel resources, and requires the effort of 23 full-time employees.
- o 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) 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 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

The Office of Investigation 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. OI's Special Agents and Forensic Auditors are assigned to five Headquarters Divisions and nine Regional Offices, to include the Gulf Coast Region (formerly the Hurricane Relief Task Force). These OI Regional Offices are located in 39 cities nationwide and are responsible for conducting a variety of investigations in all HUD program areas, as well as investigating allegations of employee misconduct within the OIG and the Department. 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, local law enforcement agencies, and respective State Inspectors' General to form partnerships designed to benefit from the pooling of resources. These relationships form the basis for many successful joint investigations. During fiscal year 2007, the OI continues to work and develop its Rental Assistance Fraud initiatives that include the Fugitive Felon program, Missing and Exploited Children data matching, and Sex Offender data searches. OI's success in pursuing mortgage fraud investigations continues through the utilization of Regional Task Forces and strategies to combat public corruption in Multifamily, PHA, and CPD programs are proving successful.

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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 Criminal Investigations Division (CID), the Special Investigations Division (SID), and eight Regional offices. 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, other agency investigations assigned to HUD OIG by the PCIE, and major program fraud investigations as assigned by the AIGI.

The DAIGI for Programs and Disaster Recovery Oversight is charged with the supervision of the Investigative Support Division (ISD), the Inspections and Evaluations Division (I&E), the Disaster Relief Oversight Division (DROD), and the newly established Gulf Coast Region. ISD is responsible for OI budget matters, training, equipment, and field support. DROD oversees the analysis of HUD program fraud schemes in the Gulf Coast States, and provides liaison with the Department, PCIE, and the Congress. The newly established Gulf Coast Region investigates all hurricane-related program fraud in the Gulf area.

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

b. Workload

OIG's Semiannual Reports to Congress continue to show significant results from its investigative efforts. The following is a summary of investigative results from October 1, 2006 through September 30, 2007.

INVESTIGATIVE RESULTS

ARRESTS a/	INDICTMENTS/INFORMATIONS	CONVICTIONS/ PLEAS/PRE- TRIAL DIVERSIONS	INVESTIGATIVE RECEIVABLES/ RECOVERIES b/	ADMINISTRATIVE SANCTIONS	CIVIL ACTIONS	TOTAL JUDICIAL ACTIONS
2,689	1,333	1,055	\$275,691,517	1,779	107	6,963

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.

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These same results by program are:

<u>Investigative Area</u>	<u>Judicial Actions</u>
Single Family Mortgage	839
Public and Indian Housing	5,257
FHA Multi Family	414
Community Planning and Development	283
Other/GNMA	170
Total	6,963

The newly formed Gulf Coast Region's results in hurricane-related HUD program fraud during fiscal year 2007 are listed below. HUD Program funds are now just being dispersed into the Gulf Coast Region. As a result, we expect an increase in fraud activity in this part of the country similar to what occurred following the events of September 11 2001.

ARRESTS	INDICTMENTS/INFORMATIONS	CONVICTIONS/ PLEAS/PRE-TRIAL DIVERSIONS	ADMINISTRATIVE ACTIONS	INVESTIGATIVE RECEIVABLES/ RECOVERIES	FUNDS PUT TO BETTER USE
75	53	41	40	\$307,001	\$2,544,745

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

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

Governed by the OIG Strategic Plan, the OI continues to aggressively pursue fraud in the FHA Single Family mortgage and rental assistance program areas. During fiscal year 2007, the OI conducted investigations in these areas resulting in 6,096 judicial actions. In addition, the OI conducted investigations into CPD fraud, troubled PHAs, and FHA Multifamily equity skimming which resulted in 867 judicial 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 still experience an active working relationship with the FBI throughout the country on public corruption matters and mortgage fraud. We work closely with other OIG offices, state and local agencies, and our Office of Audit on approximately 40 percent of our investigations.

Financial fraud 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. 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 need of both the Offices of Audit and Investigation. OI's Computer Forensic Section provides technology assistance and computer forensic support to Special Agents conducting complex fraud investigations that frequently require the search, seizure, and evaluation of electronic evidence. Because of our continuing need for financial intelligence, OIG has detailed a Special Agent on a full-time basis to the Department of Treasury, Financial Crimes Enforcement Network (FINCEN). This facilitates and expedites the OIG's requests to FINCEN for financial information relative to money laundering, financial fraud investigations, and link analysis of entities, events, and funds.

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. 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.

c. Investigations' Program Fraud Initiatives

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

- 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 under-reporting of income. That projection was derived from a review comparing earned and unearned household income reported to PHAs, project owners and management agents, to income data from the Social Security Administration (SSA) and Internal Revenue Service (IRS) databases. Understating income or any other false entry or statement used to acquire a housing subsidy violates HUD rules and may also meet the elements of a criminal violation. In fiscal year 2003, GAO listed rental subsidy overpayments as one of the Department's major material weaknesses.

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 reduce overall problems, including a tenant integrity program. HUD's Section 8 program provided more than \$22 billion in rental assistance payments to low-income households in fiscal year 2004. HUD administers its Section 8 program in two parts. In general, the HUD Office of Public and Indian Housing (PIH) manage the tenant-based portion of the program, while HUD's Office of Housing manages the project-based portion.

Beginning in fiscal year 2004 and continuing through fiscal year 2007, OI began and continues to receive, through cooperative planning with the Department, referrals from the Rental Housing Integrity Improvement Program (RHIIP). In support of the Department's RHIIP, the HUD OIG Office of Investigation initiated their Rental Assistance Fraud Initiative. This initiative uses extensive data matching and data mining efforts from the Department's Enterprise Income Verification program (EIV). The EIV essentially matches income data provided by respective State wage-based agencies with tenant income records. This partnership between the Department's RHIIP and the OIG Rental Assistance Fraud Initiative has identified hundreds of referrals for criminal investigation, evictions, and the recovery of millions of dollars of program funds. OIG Special Agents in Charge of all nine regions continue to make Section 8 rental assistance fraud, committed by the tenant, the Section 8 administrator, management companies, or PHA employees, an investigative priority. An integral part of this initiative is an on-going outreach effort by OIG personnel, including the Inspector General and others from headquarters, to meet with Executive Directors of housing authorities, provide training seminars for the identification of

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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 (NAHRO), the Public Housing Authorities Directors Association (PHADA) and the Association of State Inspectors General. This very successful grassroots approach has been fully embraced by the housing industry.

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

The use of the DOJ and State's databases to locate fugitive felons in HUD assisted living projects is based on Section 903 of Public Law 104-193, signed into law in 1996, is titled "Elimination of Housing Assistance with Respect to Fugitive Felons and Probation and Parole Violators." This law allows for the immediate termination of tenancy of a public housing tenant if the tenant is fleeing to avoid prosecution or confinement after conviction for a felony, or is violating a condition of parole or probation imposed under Federal or State law. The law also authorizes the exchange of information with law enforcement agencies to allow for data matches. Since inception of the Fugitive Felon Initiative, OI has opened 769 cases and closed 729 cases. Over 8,000 arrests were made by OI and other Federal, State, and local law enforcement agencies. During fiscal year 2006, there were over 1,900 arrests nationally. Many of these arrests were made with the U.S. Marshalls Service special enforcement operation known nationally as "Operation Falcon." OI assisted in the apprehension of over 350 fugitives living in HUD public and assisted housing during "Operation Falcon" in fiscal year 2006.

During fiscal year 2006, OIG entered into a working relationship with the National Center for Missing and Exploited Children (NCMEC). In conjunction with our rental assistance overpayments initiative, OI has matched NCMEC data with rental assistance information to assist in identifying missing children. The first run conducted during the second quarter of fiscal year 2006 resulted in 100 possible hits. OI assisted NCMEC and law enforcement in closing five NCMEC cases. OI is an active member of the Federal Agency Taskforce on Missing and Exploited Children.

OI has also begun an initiative to identify sex offenders who are subject to a lifetime state sex offender registration program and have been admitted to housing which is funded by Federal assistance housing programs. This initiative will identify and remove registered sex offenders that are benefiting from federal housing assistance programs that they are not eligible to receive. Since inception, more than 40 sex offender cases have been opened.

OI's continued involvement in these new initiatives is planned for fiscal years 2008 and 2009.

- Single Family Mortgage Fraud

For fiscal years 2008 and 2009, FHA Single Family mortgage fraud will continue to be an investigative priority. Our work will focus on various frauds perpetrated by title companies, loan officers, mortgage companies and brokers, real estate agents and brokers, closing attorneys, appraisers, builders, and non-profit entities. These groups, committed to taking advantage of FHA programs through a variety of schemes, submit or cause to be submitted fraudulent loan applications, appraisals, and other falsified documents and use straw-buyers, forgers, equity skimmers, and co-conspirators to engage in extensive fraud schemes. The OIG will expand investigative efforts to include the filing of false bankruptcy petitions and violations of the Real Estate Settlement and Procedures Act (RESPA).

The 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. OI is also developing stronger relationships with the respective state investigative agencies and will present cases to District Attorneys in those instances when the U.S. Attorneys resources will not allow prosecutive assets. FHA Single Family mortgage fraud comprised approximately 15 percent of OI's fiscal year 2006 caseload.

With the most recent national crisis in the Subprime Mortgage Loan market and the impending FHA modernization, OI is monitoring new trends that will cause high levels of mortgage defaults and systemic weaknesses in FHA programs. Within each of these areas there will be the opportunity for fraud and increased risk to the FHA mortgage insurance program. New fraud schemes involving identity theft and illegal immigration mortgage fraud have increased substantially.

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Investigative efforts on Single Family cases from October 1, 2006 through September 30, 2007 resulted in 839 judicial actions, \$237,926,341 in investigative recoveries, and \$22,161,323 in funds put to better use.

Included in OI's efforts to address FHA mortgage fraud is our: (a) outreach initiative to the industry, through speaking engagements with the Mortgage Bankers Association, and the Appraisal Institute; (b) continued coordination and joint fraud training with the FBI; (c) intensive in-house training courses for auditors and agents; and (d) monitoring of HUD defaults and claims through data mining of FHA systems.

- Disaster Recovery Program Fraud

With Congress funding billions of dollars directed at Gulf Coast recovery from the 2005 hurricanes, OI has established a leading role in law enforcement activities directed at combating fraud in government hurricane-funded programs. Working jointly with the DOJ 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. In addition, focus is being given to dishonest management in non-profit grantees.

Public corruption and contract fraud in these HUD program funded areas is expected to be a major 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. This initiative is centered on training our investigative staff, conducting outreach to industry groups, and fostering a firm relationship with the REAC and DEC.

- Public Corruption in HUD Grant Programs and Housing Management Entities

During fiscal years 2006 and 2007, OI developed significant investigations that uncovered public corruption in the management of housing projects as well as the administration of grant programs funded to state and local governments. As a result, OI is proactively targeting underperforming grantees and management entities to detect early signs of fraud and abuse in these HUD funded program areas. Working jointly with the Department to identify this corruption, OI has put in place a strategy to aggressively weed out the criminal element trying to take advantage of these tax dollars. Training has been established for all special agents that will assist them in their investigations. Each OI Regional office is tasked with targeting underperforming grantees and housing management entities to root out fraud operations by using the assets of the Department such as REAC and Multifamily Asset Management as well as enlisting the support other Federal and local law enforcement agencies.

d. Inspections and Evaluations

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

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

During fiscal years 2008 and 2009, OIG will continue to work with the DOJ Joint Terrorism Task Forces (JTTF) in our role of first response during national disasters and assisting in uncovering terrorism and gang-related activity in public housing. Although our resources will not allow full-time participation in all JTTFs, OIG is actively engaged to the extent its resources will allow. OI will participate as resources permit in the DOJ Public Housing Safety Initiative as well as task force activities directed toward gang activity in public and assisted housing. DOJ's newly created Procurement Fraud Task Force, a result of Gulf Coast and Iraq war funding, requires the Office of Investigation to use assets in collaborating with the Department to combat fraud in its procurement processes. OI Regional offices are working with their individual U.S Attorney's offices task forces required by the Attorney General.

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

5. OFFICE OF MANAGEMENT AND POLICY (OMAP)

a. Employment and Responsibilities

OMAP devotes 41 FTE's to OIGwide administrative support, including budget and financial management operations and policy, strategic planning, human resources management, employee training, internal policy development, information technology (IT) and automated office support services, reports preparation, and records management. This Office also oversees the OIG Internal Management Assessment Program, the OIG Hotline operation, and has instituted an outreach program to promote fraud awareness and training for HUD staff and program administrators. The OMAP is responsible for Equal Employment Opportunity, Alternative Dispute Resolution, and Ombudsman functions.

b. Workload

OMAP is the OIG focal point for providing streamlined support to OIG and developing policies and procedures, particularly those related to administrative programs and human resources. OMAP has an on-going initiative to issue new or updated policies and guidance in these two areas and has completed 11 major policy renewals in fiscal year 2007. OMAP also conducts the OIG Internal Management Assessment Program that measures OIGwide compliance with professional audit and investigative standards and administrative policies. This program involves a comprehensive evaluation of 1 Region each quarter for 4 evaluations per year, so that each Region is evaluated at least once every 3 years.

OMAP created a Program Integrity Division, 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 2007, the Hotline staff processed about 23,000 inquiries/complaints.

The OIG has outsourced its automation services support to a new contractor. Our OIG IT staff monitors the contractor's performance as part of an overall effort to enhance mission performance. The OMAP IT staff has made significant progress in providing access to HUD databases and applications directly from OIG computers. The IT staff provides infrastructure support in the many HUD/GSA mandated moves of nationwide offices, and through the use of emerging technology, has brought to fruition a truly mobile "office anywhere" environment. This environment allows auditors and investigators to connect to the OIG network directly from an audit/investigative site, and includes access to secure OIG e-mail via the worldwide Internet and through the use of wireless handheld devices. An OIG IT Security Manager has strengthened the security and integrity of the OIG network. Significant effort has gone into assuring data and network security. All laptops have been encrypted and a task force established to assist OIG to meet new OMB security requirements.

The OIG continues to pursue a management information system to enhance analysis capabilities of data in automated business processes for Audit and Investigations in order to provide senior managers with the information they need for effective decision-making in audit and investigative management. The workflow applications originally deployed were designed as audit/investigation work tools, which were not optimized for management reporting. OIG needs a system that meets the broad reporting requirements of OIG to include current performance measures, and Semiannual Reports to Congress. The system will be enhanced over time to include data reporting capabilities for timekeeping, contracts, budgets, hotline, task tracking, COOP data, training, and employee data. With a well-designed system, OIG will be able to respond quickly and effectively to requests from any source.

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

This division also coordinates and oversees all training for OIG staff. Last year they processed over 516 students for internal OI training and approximately 158 for training at the Federal Law Enforcement Center in Glynco, GA. Emphasis has been on in-house Program Fraud Training in support of the strategic focus.

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