Improvements are Needed in HUD's Fraud Risk Management Program

HUD's Fraud Risk Management Program | 2023-FO-0001

October 26, 2022

Date: October 26, 2022

To: Wilmer Graham
           Chief Risk Officer, F

           George Tomchick III
           Deputy Chief Financial Officer, F

           //signed//
From: Kilah S. White
           Assistant Inspector General for Audit, GA

Subject: Improvements are Needed in HUD's Fraud Risk Management Program

Attached are the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our audit of HUD's fraud risk management program.

HUD Handbook 2000.06, REV-4, sets specific timeframes for management decisions on recommended corrective actions. For each recommendation without a management decision, please respond and provide status reports in accordance with the HUD Handbook. Please furnish us copies of any correspondence or directives issued because of the audit.

The Inspector General Act, Title 5 United States Code, appendix 8M, requires that OIG post its reports on the OIG website. Accordingly, this report will be posted at https://www.hudoig.gov.

If you have any questions or comments about this report, please do not hesitate to call Lakesha Shaw, Assistant Audit Director, at (202) 557-4683.

Highlights

IMPROVEMENTS ARE NEEDED IN HUD'S FRAUD RISK MANAGEMENT PROGRAM| 2023-FO-0001

What We Audited and Why

We audited the U.S. Department of Housing and Urban Development's (HUD) fraud risk management program at the enterprise and program-office levels and assessed its overall maturity.

We conducted this audit because we identified potential weaknesses in program-specific fraud risk assessments during another audit engagement. Also, with the additional funding provided to HUD as part of the Coronavirus Aid, Relief, and Economic Security Act and the American Rescue Plan Act, we determined that it was important to assess the maturity of this program at this time.

Our objective was to determine HUD's progress in implementing a fraud risk management framework at the enterprise and program-office levels that encompasses control activities to prevent, detect, and respond to fraud.

What We Found

The Antifraud Playbook established by the Chief Financial Officers Council and the U.S. Department of the Treasury assess maturity of an agency's fraud risk management program in four phases: (1) culture, (2) identifying and assessing fraud, (3) preventing and detecting fraud, and (4) turning insight into action. We found that in all four phases HUD's fraud risk management program was in the early stages of development, or at an "ad hoc" maturity level. HUD's program is still in its infancy because HUD had not previously dedicated sufficient resources to lead and implement fraud risk management activities.

Although HUD has recently taken steps to mature its program, HUD needs to commit resources to enhancing antifraud controls and promoting a culture of fraud risk management. Without improvements to its program, HUD may miss opportunities to identify and eliminate fraud vulnerabilities, leaving its funds and reputation at risk.

What We Recommend

We recommend that the Chief Risk Officer perform a complete agency-wide fraud risk assessment and develop a plan to improve the maturity of HUD's fraud risk management program. The Chief Risk Officer should also communicate to program staff the differences between HUD's processes for enterprise risk management, Payment Integrity Information Act of 2019, and financial risk management risk assessment and how those processes relate to HUD's fraud risk management program. Additionally, the Chief Risk Officer should develop policies, procedures, and strategies for collecting and analyzing data to identify fraud within HUD's programs, promote fraud awareness, and develop antifraud risk mitigation tools.

We also recommend that the Chief Financial Officer determine and seek to fulfill an appropriate level of dedicated staff resources to administer HUD's enterprise and fraud risk management programs effectively and increase fraud risk awareness and strengthen antifraud controls in HUD's program offices.

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Background and Objective

As stated by the Office of Management and Budget (OMB),[1] fraud jeopardizes agency missions by diverting scarce resources from their intended purpose. A single case of fraud can undermine programmatic mission; disrupt services; and force management to spend valuable time, resources, and staff-hours to resolve and recover property lost due to fraud. Reputational risks of fraud can damage the perception of an agency, impact employee morale, and create distrust by the public, further hindering its efforts to provide services to the public.

The U.S. Government Accountability Office's (GAO) Standards for Internal Control in the Federal Government issued in September 2014, defines fraud as obtaining something of value through willful misrepresentation and states that management should consider the potential for fraud when identifying, analyzing, and responding to risks. In July 2015, GAO issued A Framework for Managing Fraud Risks in Federal Programs. The Framework identified leading practices and encompassed control activities to prevent, detect, and respond to fraud and identified four components – assess, design and implement, evaluate and adapt, and commit – for effectively managing fraud risks.

The Fraud Reduction and Data Analytics Act of 2015 (FRDAA), enacted June 21, 2016, required agencies to establish financial and administrative controls, including (1) conducting an evaluation of fraud risks and using a risk-based approach to design and implement financial and administrative control activities to mitigate identified fraud risks; (2) collecting and analyzing data from reporting mechanisms on detected fraud to monitor fraud trends and use those data and information to continuously improve fraud prevention controls; and (3) using the results of monitoring, evaluation, audits, and investigations to improve fraud prevention, detection, and response.[2]

OMB Circular A-123 states that management has overall responsibility for establishing internal controls to manage the risk of fraud and refers to GAO's Framework, stating that managers should follow the leading practices it identifies as part of their efforts to effectively design, implement, and operate an internal control system that addresses fraud risks. Managers are responsible for determining the extent to which the leading practices in the Framework are relevant to their program and for tailoring the practices, as appropriate, to align with the program's operations.

The U.S. Chief Financial Officers Council and the U.S. Department of the Treasury, Bureau of the Fiscal Service, developed The Antifraud Playbook in October 2018. The Playbook contains a maturity model designed to help agencies assess and identify the current state and goal state of their antifraud program and related efforts. The maturity model includes four progressive levels of fraud risk maturity and are defined below from the lowest to highest desired goal state.

> *Ad hoc* - Fraud risk management processes are disorganized, even chaotic, and antifraud efforts are undocumented and in a state of dynamic change, tending to be driven in an ad hoc, uncontrolled, and reactive manner. This is not a goal state for agencies with fraud exposure.

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[1]   OMB Circular A-123, Management's Responsibility for Enterprise Risk Management and Internal Control, issued July 15, 2016

[2]   FRDAA was repealed by the Payment Integrity Information Act of 2019 (PIIA), enacted in March 2020; however, PIIA kept the requirements for the controls listed above.

Initial - The agency is aware of the need for a more formal fraud risk management approach, and repeatable processes have been developed. Risks are still managed largely in a reactive way.

Operational - Fraud risk management activities across the organization are aligned with controls, and information on fraud risks is aggregated and analyzed and is easily available to the necessary individuals. The goal state for agencies with low fraud risk exposure is an initial to operational maturity level.

Leadership - The agency's focus is on continually improving fraud risk management through both incremental and innovative changes or improvements. Risks are managed largely in a proactive way. The goal state for agencies with high fraud exposure is an operational to leadership maturity level.

Further, the Antifraud Playbook organizes fraud risk management into the following four phases: (1) create a culture, (2) identify and assess, (3) prevent and detect, and (4) insight into action. In our audit, we assessed HUD's maturity in all four phases. We focused our audit on HUD's largest program offices that also recently received large sums of emergency funding in response to the COVID-19 pandemic. Specifically, we audited the following programs that received Coronavirus Aid, Relief, and Economic Security (CARES) Act[3] and American Rescue Plan (ARP) Act[4] funding as shown in figure 1 below.

Figure 1: Programs audited

Office	Program	Authorizing act	Funding
Office of Public and Indian Housing (PIH)	Tenant-Based Rental Assistance (TBRA)	CARES Act	$1.25 billion
		ARP Act	5 billion
	Public Housing Operating Fund	CARES Act	1 billion
Office of Housing	Project-Based Rental Assistance (PBRA)	CARES Act	685 million
Office of Community Planning and Development (CPD)	HOME Investment Partnerships	ARP Act	5 billion

Our objective was to assess HUD's progress in implementing a fraud risk management framework at the enterprise and program-office levels that encompasses control activities to prevent, detect, and respond to fraud.

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[3]   The CARES Act was signed into law on March 27, 2020, and provided HUD $12.4 billion.
[4]   The ARP Act was signed into law on March 11, 2021, and provided HUD $10.77 billion.

Results of Audit

FINDING: HUD'S FRAUD RISK MANAGEMENT PROGRAM NEEDED IMPROVEMENT

We audited HUD's fraud risk management program activities within the Office of the Chief Financial Officer and program offices and found that HUD could improve its current state of antifraud efforts. While HUD had made progress in implementing a fraud risk management program, HUD's program still needed significant improvement. At the time of audit, HUD's fraud risk management program was in the early stages of development, or an "ad hoc" maturity level[5]. Specifically, there were weaknesses in the four phases of a fraud risk management program: (1) culture, (2) identifying and assessing fraud, (3) preventing and detecting fraud, and (4) turning insight into action.[6] This condition occurred because HUD's fraud risk management program is new and it did not dedicate sufficient resources to lead fraud risk management activities, which is paramount in changing the culture at HUD and moving HUD past this ad hoc stage. Without sufficient resources to lead and implement fraud risk management activities, program offices did not prioritize antifraud efforts. A weak fraud risk management program increases the risk that HUD's Federal funds may be more susceptible to fraud, and it is more likely that fraud or potential fraud will go undetected.

HUD's Fraud Risk Management Program's Current State Reflected Opportunities To Improve Antifraud Efforts

The Antifraud Playbook organizes the four phases of fraud risk management into the following: (1) create a culture, (2) identify and assess, (3) prevent and detect, and (4) turn insight into action. We assessed the current state of HUD's fraud risk management program in regard to these phases and found weaknesses in each phase as detailed below. In all four phases, we determined HUD's overall fraud risk management program maturity was at an ad hoc maturity state.

Phase 1—Create a Culture

The Antifraud Playbook defines "create a culture" as building a culture that is conducive to both integrity efforts and furthering antifraud measures at the agency. Our assessment of HUD's maturity within the create a culture phase identified the following as shown in figure 2 below.

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[5]   An "ad hoc" maturity level means that fraud risk management processes are disorganized, even chaotic, and antifraud efforts are undocumented and driven in an ad hoc, uncontrolled, and reactive manner.

[6]   The U.S. Chief Financial Officers Council and the U.S. Department of the Treasury, Bureau of the Fiscal Service's The Antifraud Playbook identifies 16 leading practices for effective fraud risk management organized into 4 phases of action. The results of our audit are aligned to match The Antifraud Playbook's four-phased approach.

Figure 2: Create a culture maturity assessment

HUD's current state of antifraud efforts	Maturity rating
HUD lacked a holistic antifraud strategy and, therefore, had not designed a strategy with specific control activities to mitigate assessed fraud risks.	Ad hoc
Controls and monitoring processes within the program offices focused mostly on compliance instead of control activities to prevent and detect fraud.	

During our interviews, program offices (1) lacked awareness that fraud could occur within their programs, (2) did not know how to mitigate potential fraud, (3) did not regularly raise fraud awareness to grantees, and (4) believed that after HUD disbursed the funds to recipients, the recipients were responsible for fraud detection and fraud risk management until the Federal funds reached the final beneficiary.

We also found that there was a weak antifraud culture at some of the public housing agencies (PHA), performance-based contract administrators (PBCA), and grantees interviewed. For the 13 entities interviewed, we noted a general point of view that if a nonprofit, contractor, landlord, or tenant had submitted a request for funds containing errors, omissions, or ineligible items, it was most likely due to an honest mistake or lack of knowledge about the program.

As a result, we assessed that HUD does currently not have an agencywide culture of proactive fraud risk management that is consistent with the approach recommended by GAO's Framework for Managing Fraud Risks in Federal Programs. In general, promoting fraud awareness throughout the agency is vital to a strong antifraud culture. A weak antifraud culture increases the risk that HUD's Federal funds may be more susceptible to fraud, and it is more likely that fraud or potential fraud will go undetected.

Although we found the antifraud culture within HUD needed to be strengthened generally, we recognize that HUD has taken some important first steps during the course of our audit to change the culture. First, the HUD Secretary had taken steps to affirm her commitment to improving its fraud risk program through the issuance of HUD's Fiscal Year 2022-2026 Strategic Plan[7]. The Strategic Plan stated that HUD would continue to build its Enterprise Fraud Risk Management program and aimed to develop tools to help prevent and detect the misuse of taxpayer funds as part of strategic objective 5D: Enhance Financial and Grants Management. Second, HUD leadership approved a fraud risk management policy on March 31, 2022, which laid the foundational framework towards an enterprise-wide Fraud Risk Management program.   Third, on September 13, 2022, HUD leadership approved the addition of the fraud risk management to its front-end risk assessment policy, requiring programs to assess fraud risks proactively at the start of the program. Finally, HUD established Fraud Risk Management as one of its top priority risks in its fiscal year 2022 annual risk profile and designated November as HUD's fraud risk awareness month. This groundwork is evidence that HUD leadership is committed and determined to build an agencywide culture upon which fraud risk management processes can be established to support HUD's

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[7]   HUD's Fiscal Year 2022-2026 Strategic Plan was issued on March 28, 2022 and can be accessed at https://www.hud.gov/sites/dfiles/CFO/documents/FY2022-2026HUDStrategicPlan.pdf

mission. We believe these efforts are encouraging in moving HUD towards building a structure and culture to be more fraud-aware and combat fraud within HUD's programs.

Phase 2—Identify and Assess

The Antifraud Playbook defines this phase as identifying fraud risks and developing a path forward for executing, repeating, and expanding a fraud risk assessment that is unique and customizable for the agency. Further, managers who effectively assess fraud risks attempt to fully consider the specific fraud risks the agency faces, analyze the potential likelihood and impact of fraud schemes, and then document prioritized fraud risks. Our assessment of HUD's maturity within the identify and assess phase identified the following as shown in figure 3 below.

Figure 3: Identify and assess maturity assessment

HUD's current state of antifraud efforts	Maturity rating
HUD had not conducted an entitywide fraud risk assessment and developed a fraud risk management plan.	Ad hoc
Fraud risk assessment processes within the program offices were not implemented, resulting in no program-specific fraud risk profiles.	

During our audit, the Chief Risk Officer indicated that there were no regular or recurring fraud risk-specific assessments being performed, which would determine HUD's fraud exposure by identifying the major types of fraud risks that existed and that HUD would be most susceptible to. Further, program-level fraud risk assessment processes were not implemented, resulting in no program-specific fraud risk profiles. When asked whether fraud risk assessments were performed, program offices stated the following:

- Housing – PBRA officials told us to discuss fraud-related processes directly with the Chief Risk Officer. However, as previously stated, the Chief Risk Officer stated that no regular or recurring fraud risk-specific assessments were being performed.

- PIH – TBRA and Operating Fund officials stated that fraud risk assessments were not performed but believed that fraud management was embedded into HUD's culture.

- CPD – Officials stated that CPD had made notable improvements toward the implementation of a fraud risk assessment process through the inclusion of new fraud-related risk questions in its CPD-wide enterprise risk management assessment process. However, these fraud risk questions were high level and did not explore each CPD program to identify possible fraud schemes and fully assess each program's exposure to those schemes.

Further, we asked the Office of the Chief Financial Officer to comment on whether its HUD Cares Act Compliance Team (HCCRT)[8] completed fraud risk assessments or any other oversight activities related to

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[8]   HUD established the HCCRT under the direction of the Office of the Chief Financial Officer to support the effective administration and oversight of HUD's CARES-related programs.

fraud and fraud risk management for CARES Act funds. However, at the completion of our audit, we had not received a response after multiple requests.

As a result, HUD had not determined a fraud risk tolerance, examined the suitability of existing controls in mitigating fraud and prioritizing residual fraud risks, or determined an enterprise-wide fraud risk profile. This condition directly impacted HUD's ability and readiness to develop, document, and communicate an antifraud strategy with focused preventive control activities to evaluate the outcomes of this strategy and to use the knowledge obtained to adapt and adjust fraud risk management activities.

Phase 3—Prevent and Detect

The prevention and detection phase requires an agency to develop or strengthen antifraud controls that mitigate the highest risk areas and to start or advance a fraud analytics program. Managers who effectively manage fraud risks in this phase design and implement specific control activities, including policies, procedures, techniques, and mechanisms, to prevent and detect potential fraud. Our assessment of HUD's maturity within the prevent and detect phase identified the following as shown in figure 4.

Figure 4: Prevent and detect maturity assessment

HUD's current state of antifraud efforts	Maturity rating
HUD did not collect data on instances of adjudicated fraud and its data analytics to assess its payment data for possible instances of fraud or improper payments were very limited.	Ad hoc
Program offices did not have a strategy to collect data to conduct antifraud analyses. Specifically, CPD did not collect subrecipient payment data, and PIH and Housing did not analyze the tenant-level payment data that it collected for antifraud activities.	

HUD's program offices' controls and monitoring processes focused mostly on program facilitation or fraud that would occur only at the enterprise level. These controls and processes related more to HUD's administration and execution of program funding and did not draw attention to the specific areas within the program where fraud could occur; primarily at the grantee or subgrantee levels, nor did they specifically consider the risk of fraud when vulnerabilities were identified.

Further, we found that HUD also lacked an overall strategy to conduct antifraud related data analytics. HUD did not collect and leverage information regarding known or suspected instances of fraud that could be used to enhance HUD's program-specific risk assessments, data analytics, and other fraud risk management activities. Accordingly, HUD did not collect data on instances of fraud or suspected fraud or assess the fraud risks associated with payments made by its grantees and other recipients. The collection of this kind of data and subsequent data analytics techniques can be used to improve and strengthen fraud risk management practices at HUD and its grantees. For example, while we noted that PIH's TBRA and Housing's PBRA programs collected subrecipient data for programmatic purposes, HUD could not use

these data to select a statistical sample for Payment Integrity Information Act (PIIA) testing,[9] which contributed to HUD's noncompliance with PIIA. CPD did not collect subrecipient data for any of its programs. These examples showed HUD's inability to perform data analytic techniques to fight fraud.

The Association of Certified Fraud Examiners' (ACFE) Occupational Fraud 2022: A Report to Nations[10] found that organizations using data analytics techniques to fight fraud reduced the cost of fraud schemes by 47 percent and reduced the duration of fraud by 56 percent. Data analytics is one of the most effective antifraud control tools, and HUD did not have an antifraud data analytics strategy as part of its fraud risk management program. As a result, this state prevented HUD from evolving its fraud mitigation efforts from a reactive approach to a predictive approach that can identify fraud before it occurs.

Phase 4—Insight Into Action

The Antifraud Playbook defines this phase as using available information, either within the agency or from external sources, and turning that insight into actionable tasks. Effective management in this phase would involve managers' monitoring and evaluating the effectiveness of preventive activities, including fraud risk assessments and the antifraud strategy, as well as controls to detect fraud and response efforts. Our assessment of HUD's maturity within the insight into action phase identified the following as shown in figure 5 below.

Figure 5: Insight into action maturity assessment

HUD's current state of antifraud efforts	Maturity rating
All fraud action was referral based only and did not include identification of potential fraud through proactive antifraud activities. HUD did not have a clear process in place for PHAs, PBCAs, and grantees to report instances of known or suspected fraud to HUD and HUD's Office of Inspector General (OIG).	Ad hoc
While HUD provided programmatic trainings to grantees, the trainings were not focused on fraud risks or how to conduct antifraud activities.	

In some instances, program offices indicated that there were no fraud-specific policies, procedures, or activities being executed within the programs. In other instances, program offices thought fraud risk was covered under HUD's OMB Circular A-123 internal control assessment process, its enterprise risk management process, as well as its PIIA process. Overall, HUD did not take actions to prevent fraudulent or improper payments and instead relied on existing compliance-focused controls.

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9   Audit Report 2022-FO-0005, Determining HUD's Compliance With the Payment Integrity Information Act
10 ACFE's Occupational Fraud 2022: A Report to the Nations is based on the ACFE 2021 Global Fraud Survey conducted from July to September 2021. Respondents were presented with 77 questions regarding the details of fraud cases they had investigated. ACFE received 2,110 responses, which were used for the development of the report.

Although we acknowledge that the OMB A-123 internal control and PIIA processes included steps to consider the risk of fraud on HUD's operations, they did not sufficiently address HUD's fraud risk management responsibilities because the processes did not focus on fraud and programs were not reviewed annually. Specifically, these processes (1) did not achieve the level of detail that a program-specific fraud risk assessment requires, (2) were not tailored to specific programs, (3) did not determine the likelihood and impact of fraud risks and risk tolerance at the program-office level, and (4) did not consider the suitability of existing controls or allow for the determination of a program-level fraud risk profile.

Further, we found that the trainings provided by the program offices to grantees, PHAs, and PBCAs were not focused on fraud risks, how to conduct antifraud activities, or what to do when suspected fraud is identified. Consequently, in our 13 interviews with a non-statistical sample of these entities, we found a lack of awareness of a process for reporting instances of known or suspected fraud to HUD and HUD OIG. These entities also indicated a belief that fraud was a rare occurrence. Fraud specific trainings may help these entities identify and, ultimately, reduce fraud. According to ACFE's Occupational Fraud 2022: A Report to Nations, fraud training for employees resulted in a 39 percent reduction in median losses[11] from fraud schemes

HUD's Fraud Management Program is New and Lacked Adequate Resources

With the issuance of GAO's Framework and FRDAA on July 28, 2015, and June 30, 2016, respectively, HUD has had more than 6 years to develop a more mature fraud risk management program focused on fraud risk mitigation activities. However, only recently has HUD taken steps to begin implementing some of the leading practices in GAO's Framework and The Antifraud Playbook, such as assigning HUD's Chief Risk Officer overall responsibility for the coordination and implementation of its fraud risk management program and implementing a departmental fraud risk management policy. The Chief Risk Officer is aware of a need for a more holistic fraud risk management approach and issued a Departmental Fraud Risk Management Policy on March 31, 2022. This policy defined roles at all levels of HUD; however, it did not (1) establish a specific antifraud team with dedicated resources to lead and implement fraud risk management activities or (2) outline the next steps to be taken by each program office. This progress showed that HUD was moving toward the "initial" maturity state at the enterprise-wide level; however, at a program-office level, HUD did not show an indication of progress or commitment toward improved maturity.

In addition to the infancy of HUD's fraud risk management program, we believe HUD's ad hoc fraud management maturity level was also due to the lack of dedicated resources needed to lead HUD into a more mature phase. Although HUD has a Chief Risk Officer, this position is within the Office of the Chief Financial Officer and is not supported by staff dedicated to design and oversee fraud risk activities full time or have the expertise needed to sufficiently address fraud risk at HUD on an enterprise level or navigate unique fraud risk exposure within each program. The ACFE 2022 Report to the Nations found that the existence of a dedicated fraud department resulted in a 33 percent reduction in median losses from fraud schemes. An adequately staffed and dedicated entity to lead and implement fraud risk

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[11]   The term "median loss" is adopted from ACFE's Occupational Fraud 2022: A Report to the Nations. Median loss is used instead of mean or average loss to provide a more conservative and accurate picture of the typical impact of fraud schemes.

management activities is key to changing the culture at HUD, establishing an overall fraud risk management strategy, and providing leadership to program offices as they work to implement fraud mitigation controls.

Conclusion

A fraud-aware culture is a key component of an antifraud program and can act as a preventive measure for combating fraud in HUD programs. However, due to HUD's weak fraud risk management program and Chief Risk Officer's lack of resources, HUD's antifraud culture and tone across program offices did not prioritize antifraud activities. Accordingly, each of the four fraud risk management phases assessed was determined to be at an ad hoc maturity level.

Further, due to the ad hoc nature of HUD's fraud risk management program, HUD missed opportunities to reduce losses to fraud by implementing controls, such as creating a supported antifraud entity, leveraging fraud data analytics, and introducing fraud-specific training.

Overall, fraud jeopardizes HUD's mission by diverting scarce resources from their intended purpose. A single case of fraud can undermine programmatic missions; disrupt services; and force management to spend valuable time, resources, and staff-hours to resolve and recover Federal funds lost. Fraud can lead to reputational risk which can erode public and Congressional trust in HUD and impact employee morale. Although HUD was improving its fraud risk maturity, with its current ad hoc state, fraud schemes involving regular program funds and COVID recovery funding have occurred and will continue until HUD can develop a robust fraud risk management program that creates a culture that is willing and able to regularly identify and assess, prevent and detect, and take action on suspected fraud and fraud risks.

Recommendations

We recommend that the Chief Risk Officer

1A. Perform a complete agency-wide fraud risk assessment (which incorporates the fraud risk assessments performed at the program level) and use the results to develop and implement an agency-wide plan to move HUD's fraud risk management program out of the ad hoc phase.

1B. Develop and implement a procedure to collect and analyze reported suspected instances of fraud, along with other relevant data points, that can be leveraged to develop more robust antifraud risk mitigation tools.

1C. Communicate to HUD program staff the differences between HUD's enterprise risk management, PIIA, and financial risk management risk assessment processes to ensure an understanding of their roles and responsibilities within HUD's fraud risk management program.

1D. Develop and implement activities to raise awareness of fraud, such as participating in organized antifraud conferences or a newsletter that includes instances of recent fraud in Federal programs.

1E. Develop and implement a strategy for collecting and analyzing agency-wide data, to include subrecipient and beneficiary data, to identify trends and potential indicators of fraud across programs.

We recommend that the Chief Financial Officer

1F. Collaborate with the Chief Risk Officer to conduct a workforce assessment to determine the level of dedicated full-time staff resources needed by the Chief Risk Officer to effectively (1) administer HUD's enterprise and fraud risk management programs and (2) support program risk officers by increasing employee and stakeholder awareness of potential fraud schemes that could impact each program respectively.

1G. If the workforce assessment determines that additional staff are needed, work with the Chief Risk Officer to staff the necessary positions.

Scope and Methodology

We conducted our audit from November 2021 through May 2022. Although our audit duty station is in Washington, D.C., all audit work was performed remotely, and interviews and discussions were conducted telephonically or virtually via Microsoft Teams. To gain an understanding of the fraud risk management environment at HUD, we interviewed and sent questionnaires to officials from HUD's Office of the Chief Financial Officer, including the Chief Risk Officer, and officials from CPD's, PIH's, and Housing's headquarters and field offices. Further, we identified and interviewed a random selection[12] of HOME-ARP grantees, PHAs, and PBCAs from the TBRA, PBRA, HOME, and Operating Fund programs. The results of these interviews apply only to the selected beneficiaries and cannot be projected to the universe or population.

To adequately assess HUD's fraud management program maturity, we performed the following:

1. Reviewed pertinent Federal fraud risk guidance and other criteria for assessing fraud risks, including GAO's Framework for Managing Fraud Risks in Federal Programs and The Antifraud Playbook developed by the Chief Financial Officers Council and the U.S. Department of the Treasury's Bureau of the Fiscal Service.

2. Interviewed HUD's Chief Risk Officer and worked closely with her to identify the problems she faces in trying to implement a robust fraud risk management program.

3. Interviewed and sent questionnaires to officials from CPD's, PIH's, and Housing's headquarters and field offices, including leadership such as CPD's Chief Risk Officer, PIH's Chief of the Office of Policy, Program and Legislative Initiatives, and Housing's Director of Multifamily Housing.

4. Interviewed randomly selected HOME-ARP grantees, PHAs, and PBCAs.

5. Held brainstorming sessions with subject-matter experts from OIG's Offices of Investigation and Audit.

6. Identified and reviewed HUD OIG audit reports and investigations, press releases, and reports related to potential or adjudicated fraud.

7. Coordinated with the Pandemic Response Accountability Committee (PRAC) to leverage fraud-specific knowledge from PRAC projects and determine the effects on Federal programs.

8. Identified and reviewed audit reports, press releases, and fraud alerts from other OIGs and agencies with programs similar to the TBRA, PBRA, HOME, and Operating Fund programs, such as the U.S. Department of Justice and U.S. Department of the Treasury.

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[12] This selection was made with a random number generator and non-statistical in nature. Statistical sampling was not used in this audit.

9. Reviewed HUD's Departmental Fraud Risk Management Policy (2022.1), issued on March 31, 2022, to determine the extent to which fraud management mitigation procedures had been implemented.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective(s). We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Followup on Prior Audits

We previously identified fraud risk weaknesses specific to CPD during an audit of the Community Development Block Grants and Emergency Solutions Grants programs in audit 2022-FO-0801. This audit found fraud risk factors not identified by HUD and noted potential areas of improvement to assist HUD in enhancing its fraud risk management practices. As of the completion of this audit, five recommendations from 2022-FO-0801 were open with final action target dates noted below. We have met with CPD to discuss the open status of these recommendations and CPD stated that it is working internally to address the identified issues. Once implemented, these recommendations would improve CPD's fraud risk management and could assist the Chief Risk Officer in enhancing HUD's enterprise-wide fraud risk management program. It should be noted that implementation of these recommendations alone would not be sufficient to address the recommendations made in this report.

FRAUD RISK INVENTORY FOR THE CDBG AND ESG CARES ACT FUNDS, 2022-FO-0801, ISSUED MAY 17, 2021

We recommend that the Principal Deputy Assistant Secretary for Community Planning and Development

1B. Complete a program-specific fraud risk assessment and risk profile for the CDBG [Community Development Block Grants] and ESG [Emergency Solutions Grants] programs, with emphasis on CARES Act funding, and replicate this process to create program-specific fraud assessments and risk profiles for other CPD programs. [final action target date: April 1, 2024]

1C. Consider OIG's fraud risk inventory to improve CPD's own fraud risk assessments and develop a program-specific fraud risk map and compendium. [final action target date: April 1, 2024]

1D. Implement efforts to increase the awareness of fraud at all levels (headquarters, field offices, grantees, subrecipients, etc.), including but not limited to regularly publishing articles on known fraud schemes and identified instances of fraud in periodic newsletters or on CPD's intranet website, providing recurring fraud risk trainings to HUD employees and grantees, and working with OIG to develop materials to support fraud awareness. [final action target date: October 1, 2023]

1E. Develop and implement a fraud risk checklist or other instrument as part of CPD's monitoring oversight requirements, to be completed as part of each remote and onsite monitoring review. [final action target date: July 22, 2023]

1F. Develop and implement a fraud analytics strategy using available data, including but not limited to data and information collected during the grantee risk assessment and monitoring processes, to begin conducting data analyses to identify potential fraud risks for further review. [final action target date: September 1, 2024]

Appendixes

APPENDIX A - AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation – Auditee Comments

⌑ **Comment 1 >**

> **U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**
> WASHINGTON, DC 20410
>
> OFFICE OF THE CHIEF FINANCIAL OFFICER
>
> October 17, 2022
>
> Sarah D. Sequeira, CPA
> Deputy Assistant Inspector General for Audit
> Office of Inspector General
> U.S. Department of Housing and Urban Development
> 451 7th Street, SW, Suite 3162,
> Washington, DC 20410
>
> Dear Sarah,
>
> Thank you for the opportunity to review the draft audit report on *Improvements are Needed in HUD's Fraud Risk Management Program*.
>
> As noted, HUD published its first ever Fraud Risk Management Policy in FY2022, to align fraud risk activities across HUD to the GAO Framework for Fraud Risk Management. The policy sets the standard by which programs will be measured going forward. Implementation of the policy has also begun, with consideration for the diverse program objectives required to ensure mission delivery.
>
> We recognize there is much work required to fully reach GAO's maturity standards. HUD leadership is committed and determined to build a culture upon which effective fraud risk management processes support mission delivery and to fully communicate these expectations.
>
> The work of combatting fraud is a joint HUD and OIG effort. We appreciate the collaborative discussions with your team during the audit and following issuance of the draft report. The recommendations outlined in your final report are helpful additions to our overall strategy and to elevate fraud risk considerations across HUD.
>
> We look forward to building on the collaborative efforts that have already begun with the Office of Inspector General.
>
> Sincerely,
>
> WILMER GRAHAM
>
> Wilmer J. Graham, CPA
> HUD Chief Risk Officer
>
> cc:
> Vinay Singh, HUD Chief Financial Officer
> George J. Tomchick, III, Deputy CFO
>
> www.hud.gov   espanol.hud.gov

OIG Evaluation Comments

Comment 1   We commend the HUD Chief Risk Officer for committing to further developing its fraud risk management processes to combat fraud. We look forward to working with the Department during the audit resolution process to continue strengthening the fraud risk management processes.