



OFFICE *of*
INSPECTOR GENERAL

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UNITED STATES DEPARTMENT OF
HOUSING AND URBAN DEVELOPMENT

Fraud Risk Inventory for the Tenant- and Project-Based Rental Assistance, HOME, and Operating Fund Programs' CARES and ARP Act Funds

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Date: September 29, 2022

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Subject: Potential Fraud Schemes That Could Affect Tenant- and Project-Based Rental Assistance, HOME, and Operating Fund Programs' CARES and ARP Act Funds

Attached are the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our audit of fraud risks for the Coronavirus Aid, Relief, and Economic Security (CARES) and American Rescue Plan (ARP) Act funds appropriated for the Tenant-Based Rental Assistance, Project-Based Rental Assistance, HOME Investment Partnerships, and Public Housing Operating Fund programs.

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, Acting Audit Director, at (202) 557-4683.

Executive Summary

POTENTIAL FRAUD SCHEMES THAT COULD AFFECT TENANT- AND PROJECT-BASED RENTAL ASSISTANCE, HOME, AND OPERATING FUND PROGRAMS' CARES AND ARP ACT FUNDS | 2022-FO-0007

What We Audited and Why

In coordination with the Pandemic Response Accountability Committee, we conducted an audit to identify potential fraud schemes that could affect HUD's pandemic funds. We reviewed the funds appropriated by the Coronavirus Aid, Relief, and Economic Security (CARES) Act and the American Rescue Plan (ARP) Act for the Tenant-Based Rental Assistance (TBRA), Project-Based Rental Assistance (PBRA), HOME Investment Partnerships, and Public Housing Operating Fund programs to identify the fraud risks and potential fraud schemes that they face while delivering services to the public.

Our objective was to develop an inventory of fraud risks that HUD had not previously identified for the funds appropriated by the CARES and ARP Acts for the TBRA, PBRA, HOME, and Operating Fund programs.

What We Found

We identified six overall and three program-specific fraud risk factors that increase the chance of fraud occurring by increasing the incentive, opportunity, and likelihood for an individual considering committing fraud. We used these fraud risk factors, along with the results of brainstorming sessions, interviews, and reviews of audit reports, investigations, and press releases from the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General (OIG), and other agencies to develop an inventory of 66 potential fraud schemes that HUD had not previously identified. These fraud schemes could be used to misappropriate the CARES and ARP Act funds for the TBRA, PBRA, HOME, and Operating Fund programs, resulting in emergency funds being diverted from intended beneficiaries.

What We Recommend

We recommend that HUD use the identified fraud risk factors and inventory of potential fraud risk schemes to enhance its fraud risk assessments. Ultimately, this will increase HUD's ability to safeguard its CARES and ARP Act funds from fraud and ensure that the funds are used for their intended beneficiaries.

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Background and Objective

The Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed into law on March 27, 2020, and provided the U.S. Department of Housing and Urban Development (HUD) with \$12.4 billion. The CARES Act included \$1.25 billion for the Tenant-Based Rental Assistance (TBRA) program, \$1 billion for the Project-Based Rental Assistance (PBRA) program, and \$685 million for the Public Housing Operating Fund program. The American Rescue Plan Act of 2021 (ARP) was signed into law on March 11, 2021, and provided HUD with \$10.77 billion. The ARP Act included \$5 billion for emergency housing vouchers, which provide tenant-based rental assistance, and \$5 billion for the HOME for Homelessness Assistance and Supportive Services program.

The TBRA program, also called the Housing Choice Voucher Program, helps very low-income families, the elderly, and persons with disabilities to afford decent, safe, and sanitary housing in the private market. A housing subsidy is paid directly to the landlord by the public housing agency (PHA) on behalf of the participating family. The family then pays the difference between the actual rent charged by the landlord and the amount subsidized by the program. The emergency housing vouchers included in the ARP Act were also tenant-based rental assistance and were to assist individuals and families who were homeless; at risk of homelessness; or fleeing or attempting to flee domestic violence, dating violence, sexual assault, stalking, or human trafficking or were recently homeless or had a high risk of housing instability.

Under the Section 8 PBRA program, HUD contracts with owners of multifamily rental housing to subsidize the difference between the approved rent and what low-income tenants can afford. Eligible tenants must pay the highest of 30 percent of adjusted income, 10 percent of gross income, or the portion of welfare assistance designated for housing. The CARES Act provided \$1 billion to PBRA to prevent, prepare for, and respond to coronavirus, including to provide additional funds to maintain normal operations and take other necessary actions during the period in which the program is impacted by the coronavirus, for assistance to owners or sponsors of properties receiving project-based assistance. HUD allocated up to \$190 million of this funding for COVID-19 Supplemental Payments (CSP). CSP funds were available for operating cost increases that were directly related to a property's efforts to prevent and respond to the coronavirus pandemic. Personal protective equipment, increased cleaning, and sanitization, as well as air filtration expenses, were among the most common expenditures. The fourth round of CSP added additional eligible expenses, including certain capitalized building costs recognized to have a direct role in mitigating the spread and impact of coronavirus within multifamily properties.

The HOME Investment Partnerships (HOME) program provides grants to States, units of general local government, and insular areas to implement local housing strategies to increase affordable housing opportunities for low- and very low-income families. Participating jurisdictions may use the funds for tenant-based rental assistance; housing rehabilitation; assistance to home buyers; new construction of housing; real property acquisition; site improvements; demolition; relocation for both new construction and rehabilitation projects; costs to meet property standards, including accessibility requirements; and other necessary and reasonable activities related to the development of nonluxury housing. The \$5 billion provided by the ARP Act to be administered through the HOME program was to assist individuals or households that are homeless or at risk of homelessness and other vulnerable populations by providing housing, rental assistance, supportive services, and noncongregate shelter to reduce homelessness and increase housing stability across the country.

The Public Housing Operating Fund program provides annual subsidies to PHAs for operations and management with funding eligibility, offset by the amount of expected tenant rental revenue. A PHA may use operating funds for management costs, including administration, routine maintenance, anticrime and antidrug activities, resident participation in management, insurance costs, energy costs, and appropriate costs related to the management of mixed-finance projects. PHAs may leverage some operating funds to make capital improvements through the Operating Fund Financing Program by pledging a portion of their operating reserves to make future debt service payments. PHAs may also leverage operating funds to enter into energy performance contracts by pledging, in accordance with Section 30 of the U.S. Housing Act of 1937 and with HUD's approval, to use energy savings for debt service payments. The \$685 million provided for the Operating Fund by the CARES Act was to prevent, prepare for, and respond to coronavirus, including to provide additional funds for PHAs to maintain normal operations and take other necessary actions during the period in which the program is impacted by the coronavirus.

Fraud and fraud risk are distinct concepts. The U.S. Government Accountability Office's (GAO) Standards for Internal Control in the Federal Government defines fraud as obtaining something of value through willful misrepresentation. Whether an act is fraud is a determination to be made through the judicial or other adjudicative system and is beyond management's professional responsibility for assessing risk. Management should consider the potential for fraud when identifying, analyzing, and responding to fraud risks. Specifically, management should consider the types of fraud that can occur within the entity to provide a basis for identifying fraud risks. Management should also consider fraud risk factors. Fraud risk factors do not necessarily indicate that fraud exists but are often present when fraud occurs. Fraud risk factors include when (1) individuals have an incentive or are under pressure, which provides a motive to commit fraud; (2) circumstances exist, such as the absence of controls, ineffective controls, or the ability of management to override controls, which provide an opportunity to commit fraud; and (3) individuals involved are able to rationalize committing fraud. Some individuals possess an attitude, character, or ethical values, which allow them to commit a dishonest act knowingly and intentionally. Management uses these fraud risk factors to identify fraud risks. While fraud risk may be greatest when all three risk factors are present, one or more of these fraud risk factors may indicate a fraud risk. When fraud risks can be identified and mitigated, fraud may be less likely to occur. Although the occurrence of fraud indicates that there is a fraud risk, a fraud risk can exist even if actual fraud has not been identified or occurred.

Our objective was to develop an inventory of fraud risks that HUD had not previously identified for the funds appropriated by the CARES and ARP Acts for the TBRA, PBRA, HOME, and Operating Fund programs. However, it is important to note that the inventory we developed should only inform HUD's risk assessment process to help management identify fraud risks, and it does not replace management's responsibility to conduct its own risk assessment and implement its own internal control system.

Results

FINDING: FRAUD SCHEMES THAT COULD AFFECT PANDEMIC FUNDS

We identified six overall and three program-specific fraud risk factors that contribute to the likelihood of fraud related to the CARES and ARP Act funds for the TBRA, PBRA, HOME, and Operating Fund programs. We used the fraud risk factors and the results of brainstorming sessions; interviews; and reviews of audit reports, investigations, and press releases to identify 66 potential fraud schemes that could be used to misappropriate CARES and ARP Act funds for the TBRA, PBRA, HOME, and Operating Fund programs. We also identified a significant risk regarding identity theft, which can be used in the execution of the fraud schemes. At the time of our audit, these potential fraud schemes had not been identified by HUD's fraud risk assessment process because HUD was in the early stages of implementing its fraud risk management program, and program-specific fraud risk assessments had not been completed. As a result, HUD may be exposed to the identified fraud schemes, which could divert emergency funds from the intended beneficiaries.

Overall Fraud Risk Factors

We identified six overall fraud risk factors that contribute to the likelihood of fraud for each of the programs funded by the CARES and ARP Acts. These fraud risk factors increase the chance of fraud occurring by increasing the incentive, opportunity, and likelihood of rationalization for an individual willing to commit fraud.

Economic climate – The consumer price index, which measures changes in prices paid by consumers for goods and services, was at 8.5 percent for the 12-month period ending March 2022, its highest level since the period ending December 1981. Home prices rose 18.8 percent in 2021, and rent prices increased 17.6 percent. Rising costs for goods and services, along with increases in the cost of housing, can increase the likelihood that an otherwise ethical person may rationalize attempting to misappropriate Federal funds. Rising rent, high unemployment, shortages of goods and services, and other pandemic-related factors can lead otherwise ethical people to rationalize attempting to misappropriate Federal funds.

Increased funding and volume of payments – The CARES and ARP Acts provided substantial increases in funds, which can draw the attention of bad actors looking to take advantage of the programs for personal gain. The increased funding can also lead to increased workloads for HUD, the grantees, performance based contract administrators (PBCA), PHAs, and subrecipients, potentially leading to capacity issues that can increase the opportunity for fraud to occur by increasing the risk of a breakdown in internal controls.

CARES and ARP Act provisions – The CARES and ARP Acts provided relaxed or altered programmatic requirements and waivers meant to expedite the distribution of funds to those in need; however, they can also increase the opportunity for bad actors looking to take advantage of the programs for personal gain. The CARES and ARP Acts also funded programs at other agencies, such as the U.S. Department of the Treasury's Emergency Rental Assistance Program, with goals, objectives, and eligible activities similar to those of HUD's programs, which increased the opportunity for bad actors to receive duplicate benefits.

Decentralized processes – HUD uses decentralized funding processes to distribute funds for the TBRA, PBRA, HOME, and Operating Fund programs, meaning that funds flow through multiple levels before

reaching the beneficiaries of the programs. This process increases the opportunity for fraud to occur. It also means that payment-eligibility decisions are made outside HUD, which is a risk factor for improper payments identified in Office of Management and Budget (OMB) Memorandum M-21-19, appendix C to OMB Circular A-123, Requirements for Payment Integrity Improvement.

Limited onsite monitoring – The pandemic environment limited onsite monitoring by HUD and its grantees, PHAs, and PBCAs, which can increase the risk that a breakdown in internal control occurs or goes undetected, increasing the opportunity for fraud.

Self-certification – Instances in which self-certification is the sole or most significant control for program eligibility increase the opportunity for bad actors to take advantage of the programs for personal gain. Notably, from April 10, 2020, through December 31, 2021, PIH permitted self-certification as the highest form of income verification for participants within its rental assistance programs.

Program-Specific Fraud Risk Factors

In addition to the overall fraud risk factors identified above, we considered whether fraud risk factors existed that were applicable to only one or more of the programs audited. We identified three additional fraud risk factors based on conditions specific to each program.

PIH TBRA and Operating Fund

- The PHAs that receive funds from the TBRA and Operating Fund programs vary greatly in size and funding. Small PHAs, some with employee counts in the single digits, do not always have the capability and resources to implement all of the controls, such as segregation of duties, that larger PHAs are able to put in place. This limitation increases the opportunity for corruption and asset misappropriation schemes enacted by leadership and staff at the PHA and the risk that fraud at the tenant level, such as misrepresentation of income, could go undetected. While they are generally able to implement more robust processes and controls, larger PHAs face increased levels of fraud risk due to the number of units and tenants that they manage, which can increase the opportunity for fraud to occur.
- Due to the pandemic, HUD waived PHA verification requirements related to income, citizenship, and social security numbers. Using these waivers, PHAs were not required to 1) use the Enterprise Income Verification (EIV) system¹ or third-party sources to verify tenant income and could use self-certification as the highest form of income verification, or 2) verify social security number and citizenship documentation before admitting applicants to the HCVP and Public Housing programs.

¹ Prior to the pandemic, PHAs were required to use the Enterprise Income Verification (EIV) System for verification of family income at the annual examination. 24 CFR §5.233(a)(2) requires PHAs to use EIV, in its entirety, as a third-party source to verify tenant employment and income information during mandatory reexaminations or recertifications of family composition and income in accordance with §5.236 and administrative guidance issued by HUD.

Multifamily Housing PBRA

- HUD set aside a portion of the funds appropriated for PBRA for CSP. CSP was meant to supplement regular housing assistance payments for expenses related to the coronavirus, such as increased cleaning; deep cleaning and sanitization services; equipment needs for social distancing; temporary staffing; Wi-Fi equipment; heating, ventilation, and air conditioning upgrades; and in limited cases, emergency generators. The expansion of eligible activities increased the opportunity for bad actors to attempt to obtain HUD funds through fraud schemes involving overstated or fraudulent expenses.

CPD HOME ARP

The HOME ARP funds' intended beneficiaries, persons who are homeless and at risk for homelessness, differ from the regular HOME program beneficiaries, low-income families. Accordingly, the eligible activities also differ and include supportive services like homelessness prevention services and the purchase and development of noncongregate shelters. The different eligible activities increased the opportunity for bad actors to commit fraud by taking advantage of the grantees' unfamiliarity with the program's rules and regulations.

Fraud Schemes Identified

Based on the fraud risk factors identified and the results of our brainstorming sessions; interviews; and reviews of audit reports, investigations, and press releases, we identified 66 potential fraud schemes that can be used to misappropriate CARES and ARP Act funds for the TBRA, PBRA, HOME, and Operating Fund programs. The schemes identified fell into the general fraud categories of asset misappropriation, corruption, and financial reporting fraud.

Asset misappropriation includes schemes in which an individual or organization steals or misuses HUD funds. While asset misappropriation schemes have the lowest median loss, they represent the most common type of fraud and, when looked at as a whole, cause significant losses. Specifically, these fraud schemes include the following:

- **Altered payee** – Involves changing the payee designation on the check or payment to the perpetrator or an accomplice.
- **Duplication of benefits** – Occurs when an organization or individual receives benefits from multiple programs or agencies for the same activity or cost.
- **False certification** – Involves a program applicant or beneficiary lying about factors that affect his or her eligibility.
- **Fictitious expenses** – Occurs when an organization or individual invents a cost or activity and seeks reimbursement for it.
- **Ghost employees or beneficiaries** – Occurs when an organization or individuals submit requests for reimbursement for employees who are not on their payroll or beneficiaries who do not exist or were not serviced.
- **Larceny** – Involves the theft of cash or personal property.
- **Mischaracterized or ineligible expenses** – Occurs when an organization or individuals submit requests for reimbursement for ineligible activities that they represent as being eligible.
- **Overstated expenses** – Occurs when an organization or individuals overstate the costs of their activities.

- **Pay-and-return** – Occurs when an employee arranges for overpayment of a vendor and pockets the overpayment amount when it is returned to the company.
- **Personal purchases** – Occurs when an individual submits an invoice for personal purchases for payment.
- **Shell companies** – Occurs when an individual submits invoices for payment from a fictitious company controlled directly or indirectly by the individual.
- **Skimming** – Occurs when an incoming payment is stolen from an organization before it is recorded on the organization’s books and records.

Corruption schemes occur when individuals use their influence or positions of trust in a business transaction in a way that violates their duty to their employers or the government. Corruption schemes fall between asset misappropriation and financial reporting fraud in terms of both frequency of occurrence and amount of loss. Corruption schemes include the following:

- **Bid-rigging** – Occurs when an employee of a subrecipient or grantee fraudulently assists a vendor in winning a contract through the competitive bidding process. Bid-rigging can also involve contractors and vendors working together to ensure that one of them receives a contract in return for payment or being brought on as a subcontractor.
- **Bribery** – Involves the offering, giving, receiving, or soliciting of a thing of value to influence a decision.
- **Conflicts of interest** – Occurs when an individual has an undisclosed ownership or financial interest in an organization or company seeking an award or that already has a contract. Conflicts of interest can include purchasing schemes and transactions with related parties.
- **Economic extortion** – Occurs when employees demand payment from a contractor, vendor, or tenant for decisions made in their favor. Refusal to pay the extortioner results in harm to the contractor, vendor, or tenant.
- **Kickbacks** – Occurs when contractors and vendors make undisclosed payments to employees of subrecipients or grantees to enlist them in overbilling or other schemes.

Financial reporting schemes involve the intentional misstatement or omission of material information in an organization’s financial reports. Financial reporting fraud schemes are the least common but the costliest, as they often involve large dollar amounts. Financial reporting schemes include the following:

- **Concealed liabilities and expenses** – Involve the concealment or understatement of liabilities and expenses, capitalizing expenses, or expensing capital expenses.
- **Improper asset valuations** – Involve the improper valuation of inventory, accounts receivable, fixed assets, intangibles, or other assets.
- **Understated revenues** – Involve the concealment or understatement of revenues.

Most of the schemes identified included actors external to HUD, meaning that they occur at the recipient or subrecipient level and may involve employees of the recipients, contractors, vendors, or beneficiaries. A full listing and the details of the potential fraud schemes identified can be found in appendix A. While the fraud risk factors and potential fraud schemes identified can assist HUD in conducting a fraud risk assessment, they do not replace such an assessment.

Impact of Identity Theft

We also identified a significant risk regarding identity theft, which can be used in the execution of several of the fraud schemes identified above. Identity theft is a significant threat that cuts across agency and program boundaries. Identity theft and identity fraud are terms used to refer to all types of crime in which someone wrongfully obtains and uses another person's personal data in some way that involves fraud or deception, typically for economic gain. The Federal Trade Commission (FTC), the primary agency for assisting identity theft victims, experienced a 2,920 percent increase in identity theft reports related to government documents or benefits fraud in 2020 compared to 2019². According to the FTC, the most common identity theft reported in 2020 was fraudsters using stolen identities to apply for government documents and benefits in 2020. Synthetic identity theft, in which bad actors combine real and fake information such as a real Social Security number and a mismatched or phony name to create a new and different identity, is the fastest growing type of identity fraud.

As detailed in our fraud risk inventory in appendix A, identity theft can be used by bad actors to misappropriate CARES and ARP Act funds from the programs audited through the creation of fake tenants or beneficiaries. As stated by Michael Horowitz, Chair of the Pandemic Response Accountability Committee³, "Citizens are often twice victimized in pandemic identity theft schemes: once when their personal information is stolen, and again when the federal benefits intended to provide relief from the health and economic impacts of the pandemic are diverted to the pockets of bad actors."⁴

Conclusion

We identified 66 potential fraud schemes that had not been identified by HUD's fraud risk assessment process. As stated in OMB Circular A-123, HUD's management has overall responsibility for establishing internal controls to manage the risk of fraud. However, at the time of our audit, HUD was still in its early stages of implementing its fraud risk management program and program-specific fraud risk assessments had not been completed. While our fraud risk inventory may be informative to HUD in conducting a fraud risk assessment, it does not replace such an assessment. Therefore, we recommend HUD use the fraud risk inventory to enhance its fraud risk management processes. Ultimately, this will increase HUD's ability to safeguard its CARES and ARP Act funds from fraud and ensure that the funds are used for their intended beneficiaries.

Recommendations

To assist HUD in its program-specific fraud risk assessments and enhance its fraud risk management program, we recommend the following:

² PRAC. (2022, June 13). *Key Insights: Identity Fraud Reduction and Redress in Pandemic Response Programs*. <https://www.pandemicoversight.gov/media/file/identity-fraud-capping-report>

³ The Pandemic Response Accountability Committee (PRAC) was created by the CARES Act to support and coordinate independent oversight of pandemic relief spending. The PRAC oversees more than \$5 trillion in pandemic relief programs and spending.

⁴ PRAC. (2021, July 15). *New PRAC Working Group to Combat Identity Fraud in Pandemic Response Programs and Improve Victim Redress*. [Press release]. <https://www.pandemicoversight.gov/news/articles/new-prac-working-group-combat-identity-fraud-pandemic-response-programs-and-improve>

We recommend that the General Deputy Assistant Secretary for Public and Indian Housing

- 1A. Use the fraud risk inventory to enhance program-specific fraud risk assessments for the TBRA and Operating Fund programs.

We recommend that the Assistant Secretary for the Office of Housing and Federal Housing Commissioner

- 1B. Use the fraud risk inventory to enhance program-specific fraud risk assessments for the PBRA program.

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

- 1C. Use the fraud risk inventory to enhance program-specific fraud risk assessments for the HOME program.

While our work noted that HUD's fraud risk management program was in the early stages of development, we have a separate audit engagement to assess HUD's fraud risk management program. In the resulting audit report, we will provide separate recommendations directly to the Chief Risk Officer and Chief Financial Officer to assist HUD in maturing its fraud risk management program.

Scope and Methodology

In coordination with the PRAC, we conducted an audit to identify potential fraud schemes that could affect HUD's pandemic funds. We conducted our audit from November 2021 through early June 2022. Audit work was performed remotely and interviews and discussions were conducted telephonically or virtually. To gain an understanding of the fraud risks HUD had identified for the TBRA, PBRA, HOME, and Operating Fund programs, we interviewed and sent questionnaires to officials from HUD's Office of the Chief Financial Officer, including the Chief Risk Officer, and officials from the Offices of Community Planning and Development (CPD) and Public and Indian Housing (PIH) and the Office of Housing's headquarters and field offices. Further, we interviewed a random selection⁵ of HOME-ARP grantees, PHAs, and PBCAs that received CARES Act or ARP Act funding to gain insight into fraud risks encountered at that level of program management. Therefore, the results apply only to the selected beneficiaries and cannot be projected to the universe or population.

To identify and develop an inventory of fraud risks, we performed the following:

1. Reviewed the CARES and ARP Acts and their specific requirements;
2. 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;
3. Interviewed HUD's Chief Risk Officer;
4. Interviewed and sent questionnaires to officials from CPD, PIH, and Housing's headquarters and field offices;
5. Interviewed randomly-selected HOME-ARP grantees, PHAs, and PBCAs;
6. Held brainstorming sessions with subject-matter experts from OIG's Offices of Investigation and Audit;
7. Reviewed HUD OIG audit reports, investigations, and press releases;
8. 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. Departments of Justice (DOJ) and the Treasury.

Specifically, we reviewed HUD OIG audit reports issued between October 1, 2018⁶, and June 1, 2022, and identified 25 reports with findings related to fraud or control deficiencies that could contribute to fraud in the TBRA, PBRA, HOME, and Operating Fund programs. We reviewed 115 press releases issued between January 1, 2019, and June 1, 2022, by HUD OIG's Office of Investigation and identified 28 instances of fraud relevant to the TBRA, PBRA, HOME, and Operating Fund programs. We also reviewed GAO report GAO-21-104542, Additional Risk Assessment Actions Could Improve HUD Oversight of CARES Act Funds. In addition, we reviewed DOJ press releases to gain an understanding of the types of fraud occurring related to Federal coronavirus funding.

⁵ This selection was nonstatistical in nature. Statistical sampling was not used in this audit.

⁶ We decided to review HUD OIG audit reports and investigations since October 1, 2018 because CARES and ARP Act funds are relatively new, and eligible activities and the ways the funds are distributed for TBRA, PBRA, HOME, and Operating Fund programs under the CARES and ARP Acts are similar to those under the annual appropriations.

We identified potential fraud schemes through a combination of brainstorming sessions; interviews; and reviews of audit reports, investigations, and press releases. We documented the specific potential fraud schemes identified using a fraud risk map.⁷ In 22 instances, HUD OIG had made arrests related to the identified fraud schemes. Some arrests occurred before the implementation of CARES Act and ARP Act funding; however, we included these cases to provide insight into how the fraud schemes could occur. These 22 cases are hyperlinked in Appendix A and denoted with a “*”.

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.

⁷ A fraud risk map is a resource that outlines identified potential fraud schemes and other related information for each scheme, such as actor and entry point, for various areas across an organization that can be used across the organization’s fraud risk management activities; for example, when performing fraud risk assessments.

Appendixes

APPENDIX A – FRAUD RISK MAP FOR THE TBRA, PBRA, HOME, AND OPERATING FUND CARES AND ARP ACT FUNDS

TBRA	Operating Fund	PBRA	Home-ARP	Fraud scheme	Actor	Fraud risk entry point	Fraud scheme description
X	X	X	X	Altered payee	PHA, PBCA, grantee, or subrecipient employee	Disbursements or collections	<p>An employee diverts funds or rent collections to his or her personal bank account. Some small PHAs and grantees do not have the resources to implement controls, such as segregation of duties. The substantial increase in funds from the CARES and ARP Acts increases the opportunity for employees to attempt redirecting payments to their own or an accomplice’s account.</p> <p><u>*Woman Arrested for Defrauding Homeless Individuals and a Nonprofit Serving the Homeless Office of Inspector General, Department of Housing and Urban Development (hudoig.gov)</u></p>
X		X		Duplication of benefits	Property management or tenant	Application or certification	A tenant receives a utility subsidy from HUD while also receiving utility subsidies from a local nonprofit or other agency and pockets the extra payment.
X		X	X	Duplication of benefits	Property management or tenant	Application or certification	Property management or a tenant applies for and receives rental assistance from multiple sources for the same unit and pockets the extra

TBRA	Operating Fund	PBRA	Home-ARP	Fraud scheme	Actor	Fraud risk entry point	Fraud scheme description
							payment(s). The CARES and ARP Acts provided substantial funding for rental assistance, increasing the opportunity for bad actors to attempt to apply for funds from multiple sources, such as HUD’s TBRA and HOME-ARP programs, Treasury’s Emergency Rental Assistance Program, and other programs run by local governments, charities, and nonprofit organizations.
			X	Duplication of benefits	Subrecipient	Expense reimbursement	<p>A nonprofit or other subrecipient submits an invoice for the same activity to multiple agencies and pockets the extra reimbursements. HOME-ARP provides funds for rental assistance and supportive services for homeless persons or persons at risk for homelessness.</p> <p><u>*Berks County Group to Pay \$121,655 under the False Claims Act for Alleged Double-Billing of Home Renovation Expenses USAO-EDPA Department of Justice</u></p>
		X		Duplication of benefits	Project owner or management	Expense reimbursement	A project owner uses HUD funds to cover the cost of property repairs, then files an insurance claim to repair the same damage and pockets the funds from the insurance claim.
			X	Duplication of benefits	Subrecipient or contractor	Expense reimbursement	A contractor or grantee submits invoices for lead repairs and abatement to multiple programs.

TBRA	Operating Fund	PBRA	Home-ARP	Fraud scheme	Actor	Fraud risk entry point	Fraud scheme description
X		X	X	False certification – identity theft	Tenant	Application or certification	<p>A program applicant uses a stolen or synthetic identity to apply for and obtain rental assistance or other Federal benefits.</p> <p><u>*Two Plead Guilty in Decades Long Scheme to Defraud the U.S. Government Office of Inspector General, Department of Housing and Urban Development (hudoig.gov)</u></p>
X		X		False certification – identity theft	Landlord, Project owner, or management	Application or certification	<p>A landlord or project owner enrolls unaware tenants in an assistance program, such as HUD’s utility assistance program, and diverts funds to personal bank accounts.</p> <p><u>*Former Orange County Detective Sentenced in HUD Fraud Scheme USAO – EDTX Department of Justice</u></p>
X		X	X	False certification – identity theft	HUD employee	Application or certification	<p>A HUD employee uses his or her knowledge of the program and a stolen or synthetic identity to create and pose as a property manager or landlord for properties he or she does not own to collect rental subsidies. This scheme may also involve the creation of fake tenants.</p> <p><u>*Jury Finds Former HUD Employee Guilty of Fraud and Identity Theft Office of Inspector General, Department of Housing and Urban Development (hudoig.gov)</u></p>

TBRA	Operating Fund	PBRA	Home-ARP	Fraud scheme	Actor	Fraud risk entry point	Fraud scheme description
X		X	X	False certification	Tenant	Application or certification	<p>A tenant understates his or her income to obtain a housing voucher or subsidized unit. The CARES and ARP Acts allowed certain controls to be waived or modified and the pandemic environment limited onsite monitoring, which increased the risk that ineligible tenants could go undetected.</p> <p><u>*Metro East Woman Pleads Guilty to Health Care and Public Housing Scams USAO-SDIL Department of Justice</u></p>
X		X		False certification	PHA employee or landlord	Application or certification	<p>PHA staff or landlords create a fictitious tenant to obtain voucher payments. This scheme can be accomplished via a synthetic identity or identity theft using the identities of family members, friends, or acquaintances.</p> <p><u>*Thousands in forged checks lands former Sellersburg employee in jail WDRB.com</u></p>
X				False certification	Tenant	Application	<p>A tenant exploits the portability process⁸ by applying at a PHA with a short waitlist and falsely certifies that he or she lives in that jurisdiction,</p>

⁸ Portability refers to the process through which a family can transfer or “port” their rental subsidy when they move to a location outside the jurisdiction of the public housing agency that first gave them the voucher when they were selected for the program.

TBRA	Operating Fund	PBRA	Home-ARP	Fraud scheme	Actor	Fraud risk entry point	Fraud scheme description
							only to port to a PHA with a longer waitlist after obtaining a voucher.
		X		False certification	Tenant	Application or certification	A tenant lives with another person whose income is not reported or who has been banned from public housing. <u>*Marlboro Woman Pleads Guilty to Welfare Fraud Office of Inspector General, Department of Housing and Urban Development (hudoig.gov)</u>
X		X		False certification or ineligible activities	Property management and tenant	Application or certification	A landlord and tenant collude to lie about the tenant's eligibility so they can reside in a unit and receive rental assistance. The tenant and landlord may split the unneeded rental assistance. The CARES and ARP Acts provided for certain controls to be waived, and the pandemic environment limited onsite monitoring, which increased the risk that ineligible tenants could go undetected.
X	X			Fictitious expenses	PHA employee	Voucher	A PHA employee increases a tenant's voucher by adding items such as disability and diverts the excess funds to his or her personal account or colludes with the landlord or tenant to obtain the excess funds.
X				Fictitious expenses	PHA employee	Voucher or certification	A PHA employee activates a voucher for a tenant who has moved and diverts the funds to his or her personal account.
X				Fictitious expenses	Tenant	Voucher	A tenant sublets his or her unit and lives elsewhere. A tenant can sublet his or her unit at

TBRA	Operating Fund	PBRA	Home-ARP	Fraud scheme	Actor	Fraud risk entry point	Fraud scheme description
							market rent for profit while residing at a different location with family or friends.
	X	X		Fictitious expenses	Property owner or management	Expense reimbursement	A property owner claims that a unit is vacant when it is occupied to collect additional operating funds or receive tax credits.
			X	Fictitious expenses	Subrecipient, contractor, or developer	Expense reimbursement	A developer creates fake environmental reviews to obtain additional funds.
			X	Fictitious expenses	Subrecipient, contractor, or developer	Expense reimbursement	A developer creates fake estimates to increase costs and obtain additional funds.
			X	Fictitious expenses	Subrecipient, contractor, or developer and grantee employee	Expense reimbursement	A developer requests funds for construction that has not started or for work that was not performed. It may include bribes or kickbacks to the grantee employee responsible for reviewing the funding requests. * <u>Former Worcester Housing Official Sentenced to 40 Months in Prison for \$2.3 Million Property Development Fraud Scheme Office of Inspector General, Department of Housing and Urban Development (hudoig.gov)</u>
		X		Fictitious expenses	Property management	Expense reimbursement	Property management files a claim for tenant damages that did not occur or that were normal wear and pockets the reimbursements.

TBRA	Operating Fund	PBRA	Home-ARP	Fraud scheme	Actor	Fraud risk entry point	Fraud scheme description
		X		Fictitious expenses	Property management	Expense reimbursement	Property management files claims for improvements allowed under CSP that were not completed and pays off inspectors.
		X		Fictitious expenses or false certification	Project owner or management	Expense reimbursement	Project management continues to report a tenant as living in a unit after the tenant moves out or dies to continue collecting subsidy payments.
		X		Fictitious expense or false certification	Property management	Application or certification	Project management houses a family member or acquaintance who was not on the waitlist or is ineligible for rental assistance.
		X		Fictitious or overstated expenses	Property management	Expense reimbursement	Property management files claims for additional cleaning supplies and personal protective equipment that were not purchased and submits fake receipts and invoices.
X		X	X	Ghost beneficiaries	PHA employee, property management, grantee, or subrecipient	Expense reimbursement	A landlord creates fake tenants using identity theft or synthetic identities to collect additional rent subsidies.
			X	Ghost beneficiaries	Nonprofit or grantee	Expense reimbursement	A grantee or nonprofit requests HOME-ARP funds for rental assistance or supportive services for a fictitious or ineligible person created using identity theft or a synthetic identity and fake rental agreements. The scheme may also involve the creation of fake landlords.

TBRA	Operating Fund	PBRA	Home-ARP	Fraud scheme	Actor	Fraud risk entry point	Fraud scheme description
							<u>*Defendants Sentenced for Scheme to Defraud Local Housing Programs of Over \$100,000 Office of Inspector General, Department of Housing and Urban Development (hudoig.gov)</u>
			X	Ghost beneficiaries	Subrecipient or contractor	Expense reimbursement	<p>An organization forges or manipulates its records of homeless people served to obtain HOME-ARP funds for supportive services. For example, a shelter can inflate the number of homeless people served by using fictitious or stolen identities to manipulate its rolls and increase the reimbursable amount.</p> <p><u>*Defendants Sentenced for Scheme to Defraud Local Housing Programs of Over \$100,000 USAO-HI Department of Justice</u></p>
	X			Larceny	Property management or landlord	Property management	A property manager or landlord uses a master key to enter a tenant’s apartment to steal cash, prescription medicines, or other items.
		X		Larceny or skimming	Property management	Rent collection	<p>Property management staff steals or skims from the tenant’s rent payments.</p> <p><u>*Maryland Woman Federally Indicted For Stealing From Former Employer Office of Inspector General, Department of Housing and Urban Development (hudoig.gov)</u></p>

TBRA	Operating Fund	PBRA	Home-ARP	Fraud scheme	Actor	Fraud risk entry point	Fraud scheme description
		X		Mischaracterized expenses	PHA staff	Expense reimbursement	A PHA deliberately uses operating funds for ineligible purposes, such as ineligible units or loans to employees. <u>*Former Coschocton Public Housing Director Sentenced to Prison for Embezzling HUD Funds USAO-SDOH Department of Justice</u>
		X		Mischaracterized expenses	Tenant	Application or certification	Members of the same family move between units so that they are able to obtain larger units and additional subsidy. For example, two siblings live in separate units with their families, and their parents are listed as living in both units.
			X	Mischaracterized expenses	Subrecipient, contractor, or developer	Expense reimbursement	A developer uses lower cost materials than originally specified and pockets the difference.
		X		Mischaracterized or overstated expenses	Project owner or management	Expense reimbursement	A tenant is placed in a unit larger than necessary so the owner-manager can collect more subsidy.
		X		Mischaracterized or personal expenses	Project owner	Expense reimbursement	A project owner takes funds from one project and uses them on a different project or for personal expenses (equity skimming).
		X		Overstated expenses	Tenant	Application or certification	A tenant does not report a life event or other occurrence, such as marriage, a new roommate, or

TBRA	Operating Fund	PBRA	Home-ARP	Fraud scheme	Actor	Fraud risk entry point	Fraud scheme description
							<p>an increase in income, so that his or her rental assistance is not adjusted downward.</p> <p><u>*Metro East Woman Pleads Guilty to Health Care and Public Housing Scams Office of Inspector General, Department of Housing and Urban Development (hudoig.gov)</u></p>
		X		Overstated expenses	Property management	Expense reimbursement	A project owner with a projected surplus claims CSP funds.
			X	Overstated expenses	Developer	Expense reimbursement	A developer inflates its costs and uses fake or doctored receipts and invoices to claim additional funds, then pockets the extra amount.
			X	Overstated expenses	Subrecipient, contractor, or developer	Expense reimbursement	After obtaining an award, a developer or contractor requests multiple change orders to increase costs. The change orders may be for unnecessary items or for items that were deliberately left out of a proposal to make the bid more appealing.
			X	Overstated and mischaracterized expenses	Subrecipient or contractor	Expense reimbursement	A contractor attributes repairs to lead abatement to increase costs when there is no lead present.
			X	Overstated and mischaracterized expenses	Subrecipient or contractor	Expense reimbursement	A contractor not certified to perform lead abatement attempts to perform lead abatement to increase costs.

TBRA	Operating Fund	PBRA	Home-ARP	Fraud scheme	Actor	Fraud risk entry point	Fraud scheme description
							<u>*Man Admits Performing Lead-Based Paint Testing in Westville Without Certification USAO-NDNY Department of Justice</u>
X	X	X	X	Pay-and-return	PHA, PBCA, grantee, or subrecipient employee	Expense reimbursement	An employee, especially at smaller entities that have fewer resources for internal controls, circumvents internal controls to overpay a vendor or subrecipient. When the excess amount is returned, he or she funnels the funds into a personal account.
			X	Shell company or organization	Subrecipient or contractor	Procurement	An individual sets up a fraudulent organization or vendor, claiming to provide services for homeless persons or persons at risk for homelessness to receive awards and claim funds with no intention of performing work or providing services. <u>*Queens Man Charged For Defrauding Government Rental Assistance Programs By Renting Out Dilapidated Apartments He Did Not Own To Families In Need USAO – SDNY Department of Justice</u>
			X	Shell company or organization	Grantee (grant manager-administrator or local	Expense reimbursement	A bad actor creates a fictitious subrecipient or contractor to funnel funds to their personal or an accomplice’s account. <u>*Former Echo Housing Corporation Executive</u>

TBRA	Operating Fund	PBRA	Home-ARP	Fraud scheme	Actor	Fraud risk entry point	Fraud scheme description
					government official)		Director Sentenced on Three Counts of Theft Office of Inspector General, Department of Housing and Urban Development (hudoig.gov)
		X		Mischaracterized expenses or fictitious revenue	PHA staff	Accounting or financial reporting	A PHA acting as a PBCA earns fees that it records as revenue, then uses for ineligible items.
	X			Unrecorded sales or understated revenues	PHA employee or contractor	Maintenance and renovations	A PHA makes improvements to its properties, then scraps the old materials and does not report the proceeds as program income. For example, replaced appliances are sold for scrap, and a PHA employee pockets the proceeds without reporting or recording them in the PHA's books.
	X	X	X	Bid-rigging	Contractor or vendor	Procurement	Contractors coordinate with each other to ensure that one of them obtains an award. Contractors can conspire to avoid competitive bidding controls by agreeing on bid prices to ensure that a specific contractor receives the award. The contractor can use the other bidders as subcontractors to funnel funds to them for their participation.
	X			Bid-rigging	PHA employee	Procurement	A PHA employee contracts with a related party for administration, maintenance, or other services, then agrees to pay inflated costs. The PHA employee may receive kickbacks for his or her participation.

TBRA	Operating Fund	PBRA	Home-ARP	Fraud scheme	Actor	Fraud risk entry point	Fraud scheme description
X	X	X	X	Bribery or kickbacks	Local government official, PHA, or grantee employee	Procurement	<p>A local official, PHA, or grantee employee solicits bribes or kickbacks in exchange for preferential treatment, such as contract awards.</p> <p><u>*Newark City Council Member Admits Scheming to Obtain Bribes and Kickbacks and Subscribing to False Tax Return Office of Inspector General, Department of Housing and Urban Development (hudoig.gov)</u></p>
X	X		X	Bribery	Inspector and PHA staff or landlord	Inspection process	<p>An inspector accepts bribes for favorable inspection reports and signs off on repairs that have not been completed or does not report items that do not pass inspection.</p> <p><u>*Former City of New Orleans Building Inspector Sentenced Office of Inspector General, Department of Housing and Urban Development (hudoig.gov)</u></p>
X				Bribery	Tenant and PHA employee	Application process	<p>A tenant can pay or bribe a PHA employee to improve his or her position on a PHA’s waitlist.</p>
X	X			Conflicts of interest or bribery	PHA board member or executive director	Procurement	<p>A PHA board member or executive director can use his or her influence and connections to influence PHA actions for his or her benefit. He or she may direct that funds be used for personal purchases or for contracts to be awarded to related parties.</p>

TBRA	Operating Fund	PBRA	Home-ARP	Fraud scheme	Actor	Fraud risk entry point	Fraud scheme description
							<u>*Former Madill Housing Authority Executive Director Sentenced to 8 Years in Prison for Embezzlement of Over \$450,000 of HUD Housing Authority Money Office of Inspector General, Department of Housing and Urban Development (hudoig.gov)</u>
X	X			Conflicts of interest or economic extortion	PHA employee	Unit selection or application	PHA staff pressures tenants to reside in units owned by the PHA. PHA staff can use its influence to coerce tenants into selecting units owned by the PHA.
			X	Conflicts of interest – purchasing schemes	Local government official and developer	Procurement	A local official accepts a bid from a developer he or she has a relationship with and does not obtain independent cost estimates.
	X			Conflicts of interest – purchasing schemes (zero-competition bids)	PHA employee	Procurement	A contract is awarded without competition to a related or otherwise favored party. The perpetrator may create documentation of fake bids to give the appearance of a competitive process. A contractor or vendor may use bribes or kickbacks in exchange for receiving the award.
		X	X	Conflicts of interest – related parties	Project owner	Procurement	A project owner maintains a financial interest in the management company, contractors, inspectors, or other vendors used by the project. The project owner benefits from the related


TBRA	Operating Fund	PBRA	Home-ARP	Fraud scheme	Actor	Fraud risk entry point	Fraud scheme description
							party's receiving business, and the related party may overcharge for services and provide kickbacks to the project owner.
X	X			Economic extortion	Landlord	Application process	A landlord takes advantage of his or her tenant by charging application fees or demanding reimbursement for fees and pocketing the funds. <u>*Husband Of State Representative Charged with Theft Bucks County Courier Times.com</u>
X		X		Economic extortion	Landlord	Rent collection	A landlord takes advantage of his or her tenant by overcharging for rent and pocketing the excess amount. <u>*Chelsea Landlord Agrees to Settle False Claims Act Allegations Office of Inspector General, Department of Housing and Urban Development (hudoig.gov)</u>
	X	X	X	Kickbacks	Contractor or vendor	Expense reimbursement	A contractor instructs a subcontractor to inflate costs, ensure that payment is made on a falsified invoice, and then provides a portion of the profit to the subcontractor.
	X	X	X	Kickbacks	Contractor or vendor	Expense reimbursement	A contractor offers a kickback to a program administrator determined to be qualified for program funds or to look the other way when the contractor overcharges for activities or costs.

TBRA	Operating Fund	PBRA	Home-ARP	Fraud scheme	Actor	Fraud risk entry point	Fraud scheme description
			X	Bribery	HUD field office employee	Monitoring	A HUD employee responsible for oversight accepts a bribe to ignore deficiencies or looks the other way to make the program look better.
			X	Conflicts of interest – kickback	HUD field office employee or grantee	Monitoring	A HUD employee with a conflict of interest colludes with a grantee to divert monitoring or oversight away from compromised activities. The actor at the grantee could repay the HUD employee with a kickback.
X	X			Conflicts of interest – purchasing schemes and improper asset valuations	PHA	Procurement or financial reporting	A PHA forms a nonprofit and purchases property without HUD approval, then applies for and obtains loans by using financial statements that are combined (showing the PHA and nonprofit as one entity).
	X			Concealed liabilities and expenses	PHA employee	Accounting or financial reporting	A PHA hides that it exceeded the reasonable amount of expenses for management by allocating costs to other projects.
			X	Understated revenue or ineligible expenses	Grantee	Financial reporting or expense reimbursement	A grantee underreports or does not report program income, then uses the program income for ineligible activities.

APPENDIX B – AUDITEE COMMENTS AND OIG’S EVALUATION

On August 18, 2022, we issued the discussion draft report to the Principal Deputy Assistant Secretary of CPD, Assistant Secretary for Housing, and the General Deputy Assistant Secretary for PIH. We received comments from the Office of Multifamily Housing and the Office of Community Planning and Development on September 13, 2022, and September 1, 2022, respectively, and are detailed on the pages below. On September 7, 2022, the Office of Public and Indian Housing stated in an email that it did not have any comments, but stated that it is taking recommendation 1A under advisement and will consider the recommendation if another CARES Act-like appropriation manifests.

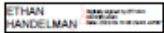
Ref to OIG Evaluation – Auditee Comments



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-8000

OFFICE OF HOUSING

MEMORANDUM FOR: Kilah S. White, Assistant Inspector General for Audit, Office of Inspector General, GA

FROM: 
Ethan D. Handelman, Deputy Assistant Secretary for Multifamily Housing, HT

SUBJECT: Management confirmation Regarding the Recommendations from the August 18, 2022 draft Audit Titled, "Fraud Risk Inventory for the Tenant- and Project Based Rental Assistance, HOME, and Operating Fund Programs' CARES and ARP Act Funds, 2019-FO-XXXX".

The Office of Multifamily Housing Programs, Office of Asset Management and Portfolio Oversight (OAMPO) reviewed subject draft report and confirm that we don't have any comments at this time. Please note that our plan is work in collaboration with OCFO to address the following Housing recommendation:

1B. Use the fraud risk inventory to enhance program-specific fraud risk assessments for the PBRA program.

We appreciate the work and engagement between our offices and look forward to continuous collaboration with OIG. Should you have any questions, or need any additional information, please don't hesitate to contact Jamal Bouaichi, Senior Advisor, Office of Asset Management and Portfolio Oversight at (202) 402-7142.

www.hud.gov espanol.hud.gov

 **Comment 1 >**

Ref to OIG Evaluation – Auditee Comments



OFFICE OF COMMUNITY PLANNING
AND DEVELOPMENT

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-7000

MEMORANDUM FOR: Lakesha Shaw, Assistant Audit Director, Financial Audits Division,
Office of Inspector General

FROM: Virginia Sardone, Director, Office of Affordable Housing Programs, DGH VIRGINIA
SARDONE

Digitally signed by
VIRGINIA SARDONE
Date: 2022.09.01
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SUBJECT: Comments on Draft Audit Report – Fraud Risk Inventory for Tenant-Based and
Project-Based Assistance Provided under CARES Act and ARP Act

 Comment 2 >

This memorandum transmits comments from CPD's Office of Affordable Housing Programs (OAHP) on the above referenced draft audit report. The draft report identifies its scope as potential fraud schemes that could affect project-based rental assistance or tenant-based rental assistance (TBRA) provided through the Coronavirus Aid, Relief, and Economic Security (CARES) Act or the American Rescue Plan (ARP) Act.

For the purposes of the HOME Program, the scope of this audit would include TBRA provided through the HOME-ARP Program, including rental assistance provided as a supportive service activity. However, draft report contains content that is outside its stated scope. Specifically, the draft audit report:

- References temporary COVID relief waivers for TBRA activities funded with regular HOME Program dollars, which permitted self-certification of income. These waivers, now expired, do not apply to the HOME-ARP Program. The HOME-ARP implementing notice does not permit tenants to self-certify their income; the PJ or its subrecipient must calculate annual and adjusted gross income using source documentation.
- Includes in Appendix A examples of potential fraud that relate to construction activities and not to the provision of TBRA.

 Comment 3 >

While OAHP does not agree that all of the examples of potential fraud schemes are plausible in HOME-ARP, we do request that examples outside the scope of the audit (e.g., not related to provision of rental assistance as a TBRA or supportive service activity) be removed from the report.

 Comment 4 >

Specifically, OAHP recommends the following revisions to the audit:

- Page 6: Delete the second bullet under HOME and the associated footnote at the bottom of the page. The waivers cited in this bullet were granted for regular HOME funds and do not pertain to the HOME-ARP program.
- Delete the following examples from Appendix A because they relate to construction activities and not HOME-ARP TBRA:
 - Page 16, third example (lead abatement is not TBRA activity).

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Ref to OIG Evaluation – Auditee Comments

 **Comment 5 >**

 **Comment 6 >**

 **Comment 7 >**

- Page 21, first example (not related to TBRA, but also not possible for construction activity because PJs, not developers, carry out environmental reviews).
- Page 21, second example (not related to TBRA, describes construction activity).
- Page 21, third example (not related to TBRA, describes construction activity).
- Page 24, third example (not related to TBRA, describes construction activity).
- Page 25, third, fourth, and fifth examples (not related to TBRA, describes construction activities).
- Page 26, first example (not related to TBRA, describes construction activity).
- Page 28, first example (not related to TBRA, describes construction activity).
- Page 30, fourth example (not related to TBRA, describes construction activity).
- Page 32, fifth example (not related to TBRA or supportive services because those activities do not generate program income, i.e., return of principal or interest).
- Page 18, first example (TBRA is provided to the tenant. A property manager cannot obtain rental assistance on behalf of a tenant. The tenant must apply, provide documentation, and sign the TBRA contract).
- Page 22, third example (TBRA is provided to the tenant. A property manager cannot obtain rental assistance on behalf of a tenant. The tenant must apply, provide documentation, and sign the TBRA contract).

OAHP also recommends revision of the following example:

- Page 18, second example (HOME-ARP does not permit self-certification of income for TBRA. Applicant's subsidy is based on income determination using source documentation). HOME-ARP should be removed, or the description revised.

If you have any questions about these comments, please do not hesitate to contact me or Peter Huber, Deputy Director of OAHP.

Cc: Elizabeth Hendrix
Daniel Pierce

OIG Evaluation of Auditee Comments

- Comment 1 We reviewed the memorandum provided by the Office of Multifamily Housing stating that there are no comments at this time. We commend the Office of Multifamily Housing for committing to collaborating with OCFO to resolve recommendation 1B.
- Comment 2 We disagree with CPD's interpretation of our scope. Our objective, as stated in the audit report, was to develop an inventory of fraud risks that HUD had not previously identified for the funds appropriated by the CARES and ARP Acts for the TBRA, PBRA, HOME, and Operating Fund programs. Our scope was not limited to fraud schemes that could only impact tenant and project based rental assistance. For the HOME-ARP program, our scope included all eligible activities and was not limited to the TBRA portion.
- Comment 3 We reviewed the HOME ARP guidance again and agreed with CPD's assertion regarding the use of self-certification. As a result, we revised the audit report and removed the language regarding self-certification in the HOME-ARP program.
- Comment 4 As stated in Comment 2, our scope of review for HOME ARP activities was not limited to the TBRA activities allowable under HOME ARP. Our review of eligible HOME-ARP activities included but was not limited to acquisition, construction, and rehabilitation. Accordingly, we believe that potential fraud schemes related to construction activities are reasonable for inclusion in our fraud risk inventory. As a result, we did not remove construction related activities from Appendix A. In an email dated September 7, 2022, following its September 1, 2022, formal comments, CPD accepted our assertion.
- Comment 5 The example questioned by CPD on page 18 identified a potential fraud scheme caused by a fraudster using identity theft and false certifications. In this scenario, the fraudster would sign the HOME ARP TBRA contract and provide identity documents as a person whose identity was stolen. As a result, we did not accept HUD's assertion that requiring documentation and a signed TBRA contract would mitigate this fraud risk and therefore, we did not revise our report.
- Comment 6 The example questioned by CPD on page 22 identified a potential fraud scheme caused by a fraudster creating ghost beneficiaries to take advantage of HOME-ARP funds. In this scenario, a property manager would create synthetic identities to obtain rental assistance as that ghost beneficiary. As a result, we did not accept HUD's assertion that property managers being unable to receive rental assistance on behalf of a tenant would mitigate this fraud risk. Therefore, we did not revise our report.
- Comment 7 We agreed that the discussion of the self-certification of income in the description of this example needed correction since HOME ARP did not permit this. As a result, we excluded the self-certification example from the description.