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The California Department of Housing and Community Development Should Improve Its Fraud Risk Management Practices for Its ESG CARES Act Program

WASHINGTON DC— Today, the U.S. Department of Housing and Urban Development (HUD) Office of Inspector General (OIG) issued a report examining the California Department of Housing and Community Development’s (HCD) practices for preventing, detecting, and responding to fraud in the administration of over \$319 million in pandemic funding through HUD’s Emergency Solutions Grant – CARES Act (ESG-CV) program.

Congress appropriated \$4 billion for ESG-CV grants to provide relief for individuals and families affected by homelessness or receiving homeless assistance, and to support additional homeless assistance and homelessness prevention activities to mitigate the impacts created by the coronavirus. The substantial influx of pandemic relief funds for HUD grantees created increased opportunities for fraud. The funding provided through HUD’s ESG-CV program represented a 1,391 percent increase to HUD’s annual ESG program funding in 2020. The ESG-CV funding HCD received represented a 2,505 percent increase from its annual formula ESG grant allocation.

The audit found that HCD was not adequately prepared to prevent, detect, and respond to fraud due to the lack of focus it placed on identifying fraud risks and establishing a robust fraud risk management framework. HCD established a departmentwide enterprise risk management framework; however, it was not robust enough to proactively identify fraud risks, and it was not developed with leading industry standards and best practices. Additionally, HCD did not conduct a fraud risk assessment and has not developed an antifraud strategy to prioritize and mitigate fraud risks. These deficiencies resulted in the lowest desired maturity goal state— Ad Hoc¹ -- for HCD’s antifraud initiatives and put more than \$319.5 million in homelessness assistance funding at an increased risk of fraud.

“Fraud poses a significant risk to the integrity of federal programs and erodes public trust in government. Enhancing its robust antifraud program will help the California Department of Housing and Community Development ensure that its pandemic grant funds, and future homelessness assistance funds, are safeguarded from fraud,” said Inspector General Rae Oliver Davis. “My office will continue assisting HUD and its grantees to expand their fraud prevention and detection efforts throughout HUD grant programs.”

HUD OIG recommended that HUD instruct HCD to (1) establish a separate fraud risk management framework or evaluate and build upon its enterprise risk management framework by incorporating fraud risk management practices and (2) obtain training or technical assistance on the implementation of fraud risk management practices.

¹ 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.

Anyone with knowledge of potential fraud, waste, abuse, misconduct, or mismanagement related to HUD programs should contact the HUD OIG Hotline at 1-800-347-3735 or visit, <https://www.hudoig.gov/hotline>. For media inquiries, contact us at OIGMediaRelations@hudoig.gov.

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