



OFFICE of
INSPECTOR GENERAL
★ ★ ★ ★
UNITED STATES DEPARTMENT OF
HOUSING AND URBAN DEVELOPMENT

Potential Fraud Risks and Schemes for HUD's Capital Fund Program

Audit Report Number: 2026-LA-0001

December 18, 2025

Highlights

Potential Fraud Risks and Schemes for HUD's Capital Fund Program | 2026-LA-0001

What We Audited and Why

Beginning in 2021, the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General (OIG), conducted several audits to assess HUD's anti-fraud efforts and to develop inventories of fraud risks in HUD programs.¹ Our previous work found that HUD's fraud risk management program was in its early stages of development, and we recommended that HUD perform program-specific fraud risk assessments and incorporate these assessments into an agency-wide plan to further advance its program.² To continue assisting HUD in improving its anti-fraud efforts, we conducted this work to identify potential fraud risks and schemes that could negatively impact the Capital Fund formula grant program, HUD, and its public housing agencies (PHAs).

What We Found

We identified four program-specific fraud risk factors that increase the chance of fraud occurring by increasing the incentive, opportunity, and likelihood that an individual will consider committing fraud. We used these risk factors, along with the results of brainstorming sessions, interviews, and reviews of audit reports, investigations, and press releases from HUD OIG, and other agencies to develop an inventory of 73 fraud schemes. The 73 fraud schemes include 58 that were listed in HUD's fraud risk catalog and 15 schemes that we identified. These fraud schemes can be used to defraud HUD and its PHAs and undermine the integrity of the Capital Fund program, which awarded \$3.1 billion in formula grants in fiscal year 2024.

What We Recommend

We recommend that HUD use the fraud risks and schemes inventory in this report and involve relevant stakeholders to create a program-specific fraud risk inventory to support its anti-fraud efforts and enhance oversight of the Capital Fund program. We also recommend that these fraud risks and schemes be communicated to all stakeholders, including public housing agencies. Additionally, we recommend that HUD determine how data currently being collected can be leveraged to identify and mitigate fraud risks.

¹ See HUD OIG audit reports *Fraud Risk Inventory for the CDBG and ESG CARES Act Funds*, 2022-FO-0801, October 12, 2021, See *Fraud Risk Inventory for the Tenant- and Project Based Rental Assistance, HOME, and Operating Fund Programs' CARES and ARP Act Funds*, 2022-FO-0007, September 29, 2022, and See *Improvements are Needed in HUD's Fraud Risk Management Program*, 2023-FO-0001, October 26, 2022.

² See HUD OIG audit report *Improvements are Needed in HUD's Fraud Risk Management Program*, 2023-FO-0001, October 26, 2022.

Table of Contents

Background and Objective	1
Results of Audit	4
Potential Fraud Risks and Schemes for HUD’s Capital Fund Program	4
Scope and Methodology	9
Appendixes	11
Appendix A – Capital Fund Program Fraud Risk Map	11
Appendix B – Management Response	23

Background and Objective

HUD annually provides Capital Fund grants via a formula to more than 2,700 public housing agencies. For fiscal year 2024, HUD awarded \$3.1 billion in formula grants, and these grants can be used for development, financing, modernization, and management improvements. For a public housing agency (PHA) with less than 250 public housing units, the agency can transfer its entire capital grant to its operating account to be used for eligible administrative costs or normal maintenance costs. For a PHA with more than 250 public housing units, there are limits on using grant funds for administrative, operations, and management improvements. The capital grant can be spent on modernization activities and physical work items or hard costs, including dwelling structures, non-dwelling equipment, non-dwelling structures, and non-dwelling equipment. Many of these activities are carried out by contractors who are procured by the PHAs. Capital grant processes done by PHAs include payroll, procurements, and disbursements.

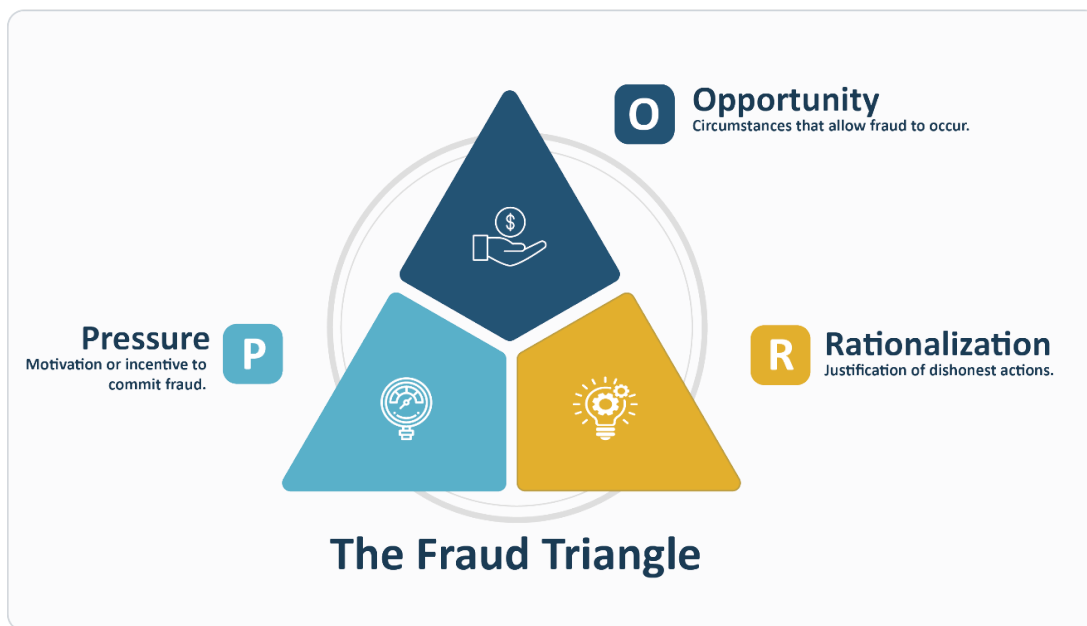
Our objective was to assist HUD by developing an inventory of fraud risks for its Capital Fund formula grant program. However, it is important to note that the inventory we developed is not all-inclusive and is only intended to inform HUD's risk assessment process to help management identify fraud risks. Further, it does not replace management's responsibility to conduct its own risk assessment and implement its own internal control system.

Fraud in Federal Programs

Fraud poses a significant risk to the integrity of Federal programs and erodes public trust in government. For the Capital Fund program, fraud results in misappropriated funds and can negatively impact the financial and physical conditions at PHAs.

The U.S. Government Accountability Office's (GAO) "Standards for Internal Control in the Federal Government", September 2014, states that management should consider the potential for fraud when identifying, analyzing, and responding to risks. The types of fraud are fraudulent financial reporting, misappropriation of assets, and corruption. The standards also say that management should consider risk factors, including incentives/pressure, opportunity, and attitude/rationalization, to identify fraud risks. Fraud risk factors do not necessarily indicate that fraud exists but are often present when fraud occurs. As shown in figure 1 below, fraud risk factors occur 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 who are able to rationalize committing fraud.

Figure 1 - This depiction of the fraud triangle was created by HUD OIG using Adobe Illustrator and is based on the fraud risk factor definitions in the U.S. GAO's Standards for Internal Controls in the Federal Government (commonly known as the Green Book).



In July 2015, GAO issued “A Framework for Managing Fraud Risks in Federal Programs” that identified leading practices and encompassed control activities to prevent, detect, and respond to fraud. The Framework identified four components – assess, design and implement, evaluate and adapt, and commit – to effectively manage fraud risks. The Framework says leading practices to assess fraud risks are to plan regular fraud risk assessments that are tailored to the program and involve relevant stakeholders, to determine the program’s fraud risk profile.

GAO says that all federal programs and operations are at risk of fraud.³ The Chief Financial Officers Council publication “Program Integrity: The Antifraud Playbook” offers guidance on how to proactively manage fraud risk in order to prevent fraud within agencies. The Playbook says that “program integrity” encompasses the concept that programs should be organizationally and structurally sound and capable of achieving their mission without compromise; it includes payment integrity, internal controls, fraud risk management, and improper payments prevention. Program integrity is a foundational concept that seeks to ensure that agencies develop and maintain governance structures, controls, and processes to safeguard taxpayer resources. The Playbook recommends identifying fraud schemes and developing a fraud risk map. A fraud risk map is a resource that outlines identified potential fraud schemes and other related information for each scheme, such as actor and fraud risk entry points, for various areas within an agency and is a resource that can be employed across fraud risk management activities.

HUD Fraud Risk Management

HUD is required to manage fraud across its programs. The Payment Integrity Information Act of 2019 (PIIA)⁴ requires HUD to evaluate fraud risks using a risk-based approach to design and implement financial and administrative control activities to mitigate identified fraud risks; to collect and analyze data from

³ See *Fraud Risk Management, 2018-2022 Data Show Federal Government Loses an Estimated \$233 Billion to \$521 Billion Annually to Fraud, Based on Various Risk Environments*, GAO-24-105833, April 16, 2024.

⁴ 31 United States Code § 3357

reporting mechanisms on detected fraud to monitor fraud trends; to use that data and information to continuously improve fraud prevention controls; and to use the results of monitoring, evaluation, audits, and investigations to improve fraud prevention, detection, and response. HUD's Fraud Risk Management Policy, dated March 31, 2022, says that program and support offices must perform fraud risk assessments of their program and functional areas. The policy says the type of fraud schemes considered should include corruption, asset misappropriation, financial statement fraud, and other non-financial fraud. The policy also tells program and support managers that fraud indicators should be developed and monitored to identify early signs of fraud risk.

In a HUD OIG September 2022 audit report, we provided fraud risk factors and potential fraud schemes not previously identified by HUD for two programs.⁵ In that report, we recommended that HUD use the fraud risk inventory we developed to enhance program-specific fraud risk assessments for the two programs reviewed. To fully address the recommendation, the Office of Public and Indian Housing (PIH) will need to complete and provide program-specific fraud risk assessments for the Tenant Based Rental Assistance and Operating Fund programs. Furthermore, an October 2022 HUD OIG audit report, "Improvements are Needed in HUD's Fraud Risk Management Program," recommended that HUD, among other things, perform an agency-wide fraud risk assessment incorporating the fraud risk assessments performed at the program levels 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.⁶ To fully address the recommendation, HUD must provide evidence that it has performed an agency-wide fraud risk assessment performed at the program level, adopted and implemented a fraud risk assessment program policy, and that each HUD program office has established office-specific risk programs. Additionally, a HUD OIG March 2025 audit report on an extra-large PHA recommended that PIH (1) assess whether HUD's other extra-large PHAs have mature fraud risk management programs and use the assessment to develop a strategy to reduce the fraud risk exposure to HUD, and (2) issue a notice to all PHAs explaining that PHAs are responsible for fraud risk management and play a role in fulfilling HUD's requirement to identify and mitigate fraud risks.

HUD has emphasized the importance of preventing and detecting fraud in its programs. In its FY 2026 Annual Performance Plan, HUD identified "Protect Taxpayer Funds" as one of its four departmental priorities. HUD is aiming to increase efficiency and effectiveness in executing its mission by eliminating waste, fraud, and abuse in Federal spending.

⁵ See HUD OIG audit report *Fraud Risk Inventory for the Tenant- and Project Based Rental Assistance, HOME, and Operating Fund Programs' CARES and ARP Act Funds*, 2022-FO-0007, September 29, 2022.

⁶ See HUD OIG audit report *Improvements are Needed in HUD's Fraud Risk Management Program*, 2023-FO-0001, October 26, 2022.

Results of Audit

Potential Fraud Risks and Schemes for HUD's Capital Fund Program

We identified four program-specific fraud risk factors that increase the chance of fraud occurring by increasing the incentive, opportunity, and likelihood of 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 73 fraud schemes. The 73 fraud schemes include 58 fraud schemes that were listed in HUD's fraud risk catalog and 15 schemes that we identified. These fraud schemes can be used to defraud HUD and its PHAs, and undermine integrity of the Capital Fund program, which awarded \$3.1 billion in fiscal year 2024.

Program-Specific Fraud Risk Factors

To assist HUD, we identified four fraud risk factors that increase the likelihood of fraud occurrence in the Capital Fund program. These factors increase the incentive, opportunity, and likelihood of rationalization of an individual willing to commit fraud. The first three risk factors were partially identified by HUD in its fiscal year 2025 payment integrity risk assessment.

Program Complexity – Capital Fund program permits small PHAs with less than 250 public housing units to transfer its entire annual Capital Fund grant to its operating account for operating expenses. This increases opportunities for misuse of grant funds because details on use of the funds are not included in the Capital Fund plan. Also, PHAs with more than 250 public housing units can spend grant funds on many items such as the development or the modernization of housing properties; therefore, because PHAs procure services and goods this creates the potential for external and internal procurement fraud schemes.

Decentralized Process – HUD awards Capital Fund grants to PHAs and the PHAs disburse the grant funds for goods and services. This involves procurement and disbursement activities done outside of HUD, which increases opportunities for fraud.

Capacity of PHAs – Most of the PHAs that receive Capital Fund grants are small agencies⁷ with limited capacity, including fewer employees or inexperienced employees. Fewer employees increase fraud risk because a single employee may be doing multiple tasks that should be segregated. Turnover among senior staff at PHAs increases fraud risk because experienced staff are replaced with less experienced staff.

⁷ We classified 1,860 of the 2,756 public housing agencies as small agencies because each received less than \$500,000 in Capital Fund grant funds for fiscal year 2024. HUD's Capital Fund Guidebook defines small PHAs as having fewer than 250 public housing units and large PHAs as having more than 250 public housing units.

Self-Certification – HUD’s uses self-certification for the obligation and drawdowns of Capital Fund grant funds from its Line of Credit Control (LOCCS) system.⁸ Self-certification increases the potential for fraud because HUD relies on these certifications.

Fraud Schemes Identified

HUD’s Office of the Chief Risk Officer developed a fraud risk catalog for HUD program offices to use when completing initial steps of a fraud risk assessment. The catalog is a comprehensive guide with step-by-step instructions for completing a program-specific inventory. Based on the fraud risk factors identified and the results of our review of HUD’s fraud risk catalog, brainstorming sessions, interviews with staff from public housing agencies, HUD, and OIG, and review of other audit work disclosed in the scope and methodology of this report, we identified 73 potential fraud schemes that can affect the Capital Fund program. The 73 schemes consist of 58 schemes listed in HUD’s fraud risk catalog and 15 schemes that we identified. Appendix A includes details related to the 73⁹ fraud risk schemes. The schemes identified fell into the general categories of asset misappropriation, corruption, and financial reporting fraud.



Asset Misappropriation Schemes

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. 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.
- **Fictitious expenses** – Occurs when an individual invents a cost or activity and seeks reimbursement for it.
- **Ghost employee** – Occurs when individuals submit request for reimbursement for employees who are not on their payroll.
- **Larceny** – Involves the theft of cash or personal property.
- **Mischaracterized or ineligible expenses** – Occurs when individuals submit request for reimbursement for ineligible activities that they represent as being eligible.
- **Overstated expenses** – Occurs when 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 PHA.
- **Personal purchases** – Occurs when an individual submits an invoice for personal purchases for payment.

⁸ LOCCS is HUD’s primary grant disbursement system and handles disbursements for most HUD programs.

⁹ IT-related schemes include phishing, bait and switch, and system password compromise. They do not directly fall into the general fraud categories, but are indirectly related to asset misappropriation because they can result in the theft or misuse of HUD funds.

- **Shell companies** – Occurs when an individual submits invoices for payment from a fictitious company controlled directly or indirectly by the individual.



Corruption Schemes

Corruption schemes occur when individuals use their influence or position 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 PHA 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.
- **Bribery** – Involves offering, giving, receiving, or soliciting of a thing of value to influence a decision.
- **Conflicts of interest** – Occur when an individual has an undisclosed ownership or financial interest in an organization seeking an award or that already has a contract. Conflicts of interest can include purchasing schemes and transactions with related parties.
- **Kickbacks** – Occur when contractors and vendors make undisclosed payments to employees of PHAs to enlist them in overbilling or other schemes.



Financial Reporting 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 disclosures** -- Involve the improper disclosure of material information, such as contingent liabilities, significant events, related-party transactions, or accounting changes.
- **Improper asset valuations** – Involve the improper valuation of inventory, accounts receivable, fixed assets, intangibles, or other assets.

Opportunities for Collaboration and Leveraging of Data

GAO's "A Framework for Managing Fraud Risks in Federal Programs" encourages using a collaborative approach for PIH's fraud risk inventory. This includes communication and coordination in identifying

types of potential fraud risks and schemes and using this information to decrease fraud risk in the Capital Fund program as well as other public housing programs. GAO recommends that relevant stakeholders, such as PHAs, be involved in identifying fraud risks.

PHA representatives that we interviewed showed interest in a fraud risk inventory and mentioned that it would be a helpful resource. OIG is another stakeholder that the PIH should consider. Our Office of Investigation can be a resource to learn about different fraud schemes related to the Capital Fund. Additionally, the OIG website is a good resource for identifying fraud risks and schemes. The website has a section titled “Combatting Fraud” with various subsections that include publications for program administrators, and common fraud schemes. For program administrators, the HUD OIG Fraud Bulletin, dated January 19, 2023, on Public Corruption, explains that public corruption can take many forms, such as when an official improperly steers contracts or grants to a preferred vendor in return for gifts or when an official (or family member) has an ownership interest with the preferred vendor. It also says that public corruption may also occur when a public official embezzles money from the Government or when they seek or accept bribes in return for taking official action. The common fraud schemes for Public and Indian Housing are listed under rental assistance and crosscutting frauds, which entail the majority of offenses in that program. The crosscutting frauds subsection pertains to the Capital Fund program and some of the frauds explained include embezzlement and theft, contracting and procurement, bribery and kickbacks, conflicts of interest, and social media scams.

HUD uses several systems to obtain information and data from PHAs; these include the Energy and Performance Information Center (EPIC), LOCCS, and Inventory Management System/Public Housing Information Center (IMS/PIC). HUD should determine whether data already collected and in HUD’s systems from PHAs can be leveraged to identify and mitigate fraud risks. HUD should also consider whether any additional data such as procurement and spending data may need to be collected or systems enhanced to mitigate fraud risks.

Conclusion

We identified 4 program-specific fraud risk factors and 73 fraud risk schemes for the Capital Fund program. The 73 schemes consist of 15 fraud schemes that we identified and 58 listed in HUD’s fraud risk catalog. While these fraud risk factors and schemes may support PIH in conducting its fraud risk assessment and fraud risk inventory for its Capital Fund program, it does not replace their responsibility to conduct a program-specific assessment and inventory. We recommend that PIH use the identified fraud risks and schemes inventory and get input from relevant stakeholders to create its program-specific fraud risk inventory. This could support HUD’s anti-fraud efforts and enhance oversight of the Capital Fund program to ensure those limited resources are used for the intended beneficiaries and communities.

Recommendations

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

- 1A. Use the fraud risks and fraud schemes HUD OIG identified and involve relevant stakeholders to create a program-specific fraud risk inventory to support HUD's anti-fraud efforts and enhance oversight of the Capital Fund program.
- 1B. Communicate Capital Fund program fraud risks and schemes to all its stakeholders, including PHAs, to increase program effectiveness.
- 1C. Determine whether data currently collected from PHAs can be leveraged to identify and mitigate fraud risks and consider whether any additional data needs to be collected or systems enhanced to mitigate fraud risks.

Management Response

HUD's Office of Public Housing Investments (OPHI) generally agrees with OIG's three recommendations. OPHI agrees to use the fraud risks and fraud schemes HUD OIG identified to create a program-specific fraud risk inventory. OPHI does not agree with a requirement that it coordinate with relevant stakeholders in developing the fraud risk inventory, particularly those that are subject to the assessment. OPHI will coordinate with stakeholders if and as necessary to complete the fraud risk inventory. OPHI will work in collaboration with HUD's Office of Chief Financial Officer and PIH to implement the report recommendations.

Management's comments are included in Appendix B.

OIG Evaluation of Management Response

We appreciate OPHI's general agreement with the report's recommendations. Although OPHI does not agree to coordinate with those stakeholders subject to the assessments, it agrees to coordinate with stakeholders if and as necessary to complete the fraud risk inventory. We understand that OPHI might not be able to involve all stakeholders including PHAs, but since capital grant funds and activities are carried out by the PHAs, the PHAs can provide valuable input related to fraud risks and schemes faced for the capital grant fund program.

Scope and Methodology

We performed our audit work between April and June 2025. We conducted fieldwork off site for this assignment. Our audit covered the period January 1, 2023, through March 31, 2025, and we expanded it to July 25, 2025, to include press releases and information on recent fraud cases.

To accomplish our objective, we

- Reviewed pertinent Federal fraud risk guidance and other criteria for assessing fraud risks, including GAO’s “Standards for Internal Control in the Federal Government;” GAO’s “Framework for Managing Fraud Risks in Federal Programs,” the “Antifraud Playbook” developed by the Chief Financial Officers Council and the U.S. Department of the Treasury’s Bureau of the Fiscal Service, and OMB Circular A-123 Appendix C.
- Reviewed Capital Fund program requirements and HUD’s Fraud Risk Management Policy.
- Reviewed Association of Certified Fraud Examiners (ACFE) materials including the “Anti-Fraud Playbook,” ACFE’s “Fraud Risk Assessment Tool,” and the 2024 ACFE document “A Report to the Nations.”
- Reviewed HUD’s fiscal year 2025 payment integrity fraud risk assessment for its Capital Fund program and its fiscal year 2005 front end risk assessment, which was done to review the Capital Fund program’s susceptibility to waste, fraud, abuse, and mismanagement.
- Identified and reviewed relevant audit reports, press releases, and fraud alerts from other OIGs and agencies with programs similar to the Capital Fund program, such as the U.S. Department of Agriculture and Treasury.
- Identified and reviewed HUD OIG audit reports and investigations related to the Capital Fund program, OIG press releases, fraud bulletins, and news articles.
- Interviewed staff from PIH’s Office of Capital Improvements and Office of Field Operations to obtain an understanding of HUD’s efforts to develop an inventory of fraud factors and schemes for the Capital fund program.
- Held brainstorming sessions with officials from various OIG offices to identify fraud risks and schemes that may occur in the Capital Fund program.
- Identified Capital Fund fraud risk factors and documented the schemes in a fraud risk map.

We selected a non-representative sample of nine of 2,756 public housing agencies for discussions. To select the nine PHAs, we divided the universe of 2,756 PHAs into three groups; small, medium, and large and selected the three PHAs that received the highest FY2024 Capital Fund allocation in each of the three

groups.¹⁰ We held brainstorming sessions with their senior staff to gain their insights on possible fraud risks and schemes related to the program.

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. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

¹⁰ New York City Housing Authority received the largest Capital Fund grant allocation in fiscal year 2024 in the large PHAs group. We excluded from our sample because OIG recently completed an audit of that PHA's fraud risk management practices.

Appendixes

Appendix A – Capital Fund Program Fraud Risk Map

HUD OIG Identified Fraud Schemes

#	Fraud Scheme	Actor	Fraud Risk Entry Point	Fraud Scheme Description
1	Altered payee	PHA, or contractor employee	Expense reimbursement-phishing	An individual with knowledge of a contractor's information such as its bank account number, bank routing number and other contractor information sends an email message asking the PHA to direct a legitimate electronic payment for rehabilitation work to the individual's personal bank account instead of the contractor's bank account.
2	Bait-and-switch	Contractor or vendor	Procurement	A vendor advertises a product at very appealing low-price to attract a PHA. When the PHA tries to purchase the product, the vendor notifies the PHA that the product is out of stock and pressures the PHA to purchase a more expensive product.
3	Bid rigging-falsifying bid information	Contractor or subcontract or	Procurement	A contractor or subcontractor submits bid information that misrepresents the contractor's experience, qualifications, or material costs. *Siemens Industry, Inc., to Pay Over \$1 Million to Resolve False Claims Act Allegations Related to Public Housing Contract Office of Inspector General, Department of Housing and Urban Development
4	Bribery	PHA employee	Procurement	An employee selects a contractor because the contractor agrees to hire the employee's relative.

#	Fraud Scheme	Actor	Fraud Risk Entry Point	Fraud Scheme Description
5	Conflicts of interest - sales schemes and improper asset valuation	PHA employee	Appraisal	An employee uses a related appraiser to prepare an appraisal that undervalues a property's fair market value so that it can be sold to a related party at a cheaper price.
6	Fictitious expenses - falsified wages-	PHA employee	Expense reimbursement	An employee collaborates with managers to falsify timesheets by claiming hours not worked by the employee and subsequently collects the fraudulent payroll payment.
7	Fictitious expenses - falsified wages-	PHA employee	Expense reimbursement	An employee at a small PHA or a PHA with weak internal controls can increase salaries, make duplicate payroll payments, redirect payroll payments, or pay bonuses. * Former Whitefish Housing Authority executive director sentenced to prison for embezzling from organization; \$144,842 restitution ordered Office of Inspector General, Department of Housing and Urban Development
8	Larceny	PHA employee	Inventory	An employee steals PHA's personal property such as tools, supplies or equipment, and does not alter accounting records to hide the theft.
9	Larceny - write-off of inventory and other assets	PHA employee	Inventory	An employee steals assets or arranges for assets to be stolen and removes the assets from the PHA records to cover the theft.
10	Larceny -asset requisitions and transfers	PHA employee	Inventory	An employee uses paperwork to transfer an asset from one location to another location and has someone steal the asset.

#	Fraud Scheme	Actor	Fraud Risk Entry Point	Fraud Scheme Description
11	Mischaracterized expenses	PHA employee	Accounting and Financial Reporting	An employee draws funds but uses the funds for non-capital fund expenses or personal expenses. * Former Clermont housing official pleads guilty to federal program theft Office of Inspector General, Department of Housing and Urban Development * Clermont Metropolitan Housing Authority 17-19 Clermont Special Final FINAL.pdf
12	Mischaracterized or ineligible expenses	PHA employee	Accounting and Financial Reporting	An employee allocates a significant portion of the costs associated with a cost center to the Capital Fund program, but the center provides most of its services to other programs.
13	Multiple reimbursements	PHA, or contractor employee	Expense reimbursement	An employee submits a duplicated invoice/claim for reimbursement, but the original invoice was already paid by funds advanced to the employee.
14	Overstated expenses - falsified wages	Contractor or subcontract or	Expense reimbursement	A contractor or subcontractor hires undocumented workers and pays them less than prevailing wages but gets reimbursed at prevailing wages.
15	Overstated expenses - orders to overstate expense	PHA, contractor, or subcontract or employee	Expense reimbursement	An employee is ordered by the supervisor to overstate the expenses claimed and the supervisor subsequently splits the funds with the employee.

HUD's Fraud Risk Catalog Fraud Schemes

#	Fraud Scheme	Actor	Fraud Risk Entry Point	Fraud Scheme Description
1	Altered payee - check washing	PHA employee	Expense reimbursement	<p>This type of check fraud occurs when an employee uses acid-based chemicals found in common household products to erase pieces of information on a check, such as a payee name or amount. The employee changes payee name and/or amount and keeps the funds.</p> <p>*Albert Lea Woman Sentenced to Prison for Embezzling Over \$200,000 in Public Housing Rent Payments Office of Inspector General, Department of Housing and Urban Development</p>
2	Bid rigging	Contractor	Procurement	Contractors agree in advance who will submit the winning bid. Bid rigging occurs when a PHA solicits bids to purchase goods or services. The PHA depends on competition between the bidders to generate the lowest competitive price, but instead the PHA receives the lowest bid that is higher than the competitive market.
3	Bid rigging - altering proposals	PHA employee	Procurement	An employee alters a proposal to ensure the selection of a preferred contractor.
4	Bid rigging - broadening specifications	PHA employee	Procurement	An employee improperly broadens specifications to qualify an otherwise unqualified bidder.
5	Bid rigging - complementary bidding	Contractor	Procurement	All contractors secretly agree to submit high-cost bids.
6	Bid rigging - fake quotes or bids	PHA employee, contractor or vendor	Procurement	A contractor, vendor, or PHA employee creates and submits fake quotes or bids from non-existent or sham companies to give the appearance of competition.

#	Fraud Scheme	Actor	Fraud Risk Entry Point	Fraud Scheme Description
				*Former Chatham Housing Executive Sentenced Office of Inspector General, Department of Housing and Urban Development
7	Bid rigging - holiday advertisement	PHA employee	Procurement	To direct purchases or contracts to a preferred contractor or vendor, a PHA employee advertises a contract over the holiday so fewer qualified competitors will have an opportunity to submit a proposal or bid.
8	Bid rigging - inadequate/vague publication	PHA employee	Procurement	To direct purchases or contracts to a preferred contractor or vendor, a PHA employee makes an advertisement unclear so qualified competitors will not dedicate corporate funds to prepare a proposal or bid
9	Bid rigging - limited advertisement days	PHA employee	Procurement	A PHA limits the days of advertising so fewer qualified competitors will have an opportunity to submit a proposal.
10	Bid rigging - limited days to submit bid	PHA employee	Procurement	To limit potential competitors, an employee provides limited days to submit bids.
11	Bid rigging - narrowing specifications	PHA employee	Procurement	An employee improperly narrows contract specifications to limit competition and favor a particular contractor.
12	Bid rigging - obscure publication	PHA employee	Procurement	An employee uses unknown publications or websites so only those with insider information will learn of the solicitation.
13	Bid rigging - scoring proposal	PHA employee	Procurement	An employee creates a scoring matrix that helps the preferred contractor.
14	Bid rigging - unbalanced proposal	Contractor	Procurement	When a bidder manipulates line-item prices, knowing the requirements for the item will change after the contract award.

#	Fraud Scheme	Actor	Fraud Risk Entry Point	Fraud Scheme Description
15	Bid rigging - unjustified sole source	Contractor	Procurement	To direct contracts to a preferred contractor, a PHA employee deliberately writes a non-supportable sole source justification to avoid competitive selection.
16	Bid rigging - unnecessary pre-qualification criteria	PHA employee	Procurement	To limit competition or disqualify potential competitors, an employee adds unnecessary pre-qualification criteria.
17	Bid rigging-bid suppression	Contractor	Procurement	Contractors convince competitors not to bid at all, or withdraw their bids, ensuring a specific bidder wins the contract.
18	Bid rigging- Insider information	PHA employee and contractor	Procurement	A contractor submits a bid after receiving insider's information about other submitted bids from a PHA employee.
19	Big rigging-bid rotation	Contractor	Procurement	Contractors agree to submit a pattern of bids that allow their pre-selected contractor to win the contract on a rotating basis.
20	Bribery	HUD or PHA employee	Monitoring	<p>An employee responsible for oversight accepts a bribe to approve work, ignore deficiencies, or looks the other way to make the program look better.</p> <p>*Former NYCHA Superintendent Sentenced To One Year In Prison After Trial Conviction For Bribery And Extortion Offenses Office of Inspector General, Department of Housing and Urban Development</p>
21	Bribery or kickbacks	PHA, contractor, or Inspector	Inspection	A housing inspector accepts money for favorable inspection reports and signs off on repairs that have not been completed or does not report items that do not pass inspection.
22	Concealment of liabilities and expenses	PHA	Accounting or Financial Reporting	A PHA hides that it exceeded the reasonable amount of expenses for management by allocating costs to other purposes.

#	Fraud Scheme	Actor	Fraud Risk Entry Point	Fraud Scheme Description
23	Conflict of interest	PHA employee	Procurement	<p>An employee involved in procurement awards a contract to a family member or an entity that is partially owned by the employee.</p> <p>*Walter Pierluisi Isern, Eduardo Pierluisi Isern, and American Management and Administration Corporation Pleaded Guilty to Federal Program Theft in Excess of \$3.7 Million and Agreed to a Restitution Order for All Illegal Proceeds Office of Inspector General, Department of Housing and Urban Development</p>
24	Conflicts of interest	PHA employee	Inventory	<p>An employee disposes of PHA assets such as cars or dwelling equipment for free or for less than their fair market values to a related party in exchange for monetary benefits.</p>
25	Conflicts of interest purchasing-scheme	PHA employee	Expense Reimbursement	<p>An employee and a seller coordinate to overstate the value of real property before the PHA buys the property.</p>
26	Fictitious expense	Contractor or subcontract or	Expense reimbursement	<p>A contractor requests funds for construction that has not started or for work that was not performed. It may include bribes or kickbacks to an PHA employee responsible for reviewing the voucher.</p> <p>*Former Asset Manager Director of South Bend Housing Authority Sentenced to 135 Months in Prison Office of Inspector General, Department of Housing and Urban Development</p>
27	Fictitious expenses	PHA employee	Expense reimbursement	<p>An employee submits a claim for reimbursement for an expense that never occurred or supported with fake receipts.</p> <p>*Former Raleigh County Housing Director Sentenced for Federal Fraud Crime Office of Inspector General, Department of Housing and Urban Development</p>

#	Fraud Scheme	Actor	Fraud Risk Entry Point	Fraud Scheme Description
28	Fictitious expenses	PHA	Procurement Expense Reimbursement	A PHA creates fictitious obligations or expenses to avoid losing funds.
29	Fictitious expense - false certification	PHA, contractor, or subcontract or	Procurement	A contractor certified that work was complete according to the contract terms and requests payments from the PHA, but the work has not been completed.
30	Ghost employees	PHA employee	Expense reimbursement	An employee adds a non-existing employee to payroll and collects the payments.
31	Ghost employees	PHA employee	Payroll	An employee does not remove terminated employees from payroll records and paychecks continue to be cut for the terminated employees. The PHA employee takes the paychecks for personal use.
32	Improper disclosures	PHA	Procurement	A PHA forms a nonprofit and purchases property without HUD's approval, then applies for and obtains loans by using financial statements that are combined (showing the PHA and nonprofit as one entity).
33	Kickbacks or Bribery	PHA employee	Procurement	<p>An employee requests money, gifts, or service from bidders or contractors to influence the awarding of contracts or other procurement decisions.</p> <p>*Former NYCHA Superintendent Sentenced To 18 Months In Prison After Trial Conviction For Bribery And Extortion Offenses Office of Inspector General, Department of Housing and Urban Development</p>
34	Kickbacks - unnecessary purchases	PHA employee	Procurement	An employee seeks personal gain by purchasing goods or services without a valid requirement to help the seller in getting additional profit based on contracting conditions.
35	Kickbacks or overstated expenses	Contractor and	Expense Reimbursement	A contractor instructs a subcontractor to inflate costs by inflating the number of hours worked or costs of materials used on site, ensure that

#	Fraud Scheme	Actor	Fraud Risk Entry Point	Fraud Scheme Description
		subcontract or		payment is made on a falsified invoice, and then provides a portion of the profit to the subcontractor.
36	Kickbacks-purchase in excess	PHA employee	Procurement	An employee purchases goods or services in excess of need to help the seller in getting additional profit based on contracting conditions and receives monetary benefits from the seller.
37	Larceny -	PHA employee	Expense Reimbursement	A PHA 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.
38	Larceny - asset requisitions and transfers	PHA employee	Inventory	An employee steals inventory and covers it up by altering accounting records to suggest the inventory was lost due to damage or spoilage.
39	Larceny - booking fictitious assets in inventory	PHA employee	Accounting and Financial Reporting	An employee in a small housing agency can embezzle cash, use fake documents to record assets in the inventory records to cover the embezzlement, and then writes off the asset or depreciates the asset completely in the year of purchase to conceal *DiNapoli: Former West Carthage Housing Authority Executive Director and Mother Pled Guilty for Over \$48,000 Theft Office of Inspector General, Department of Housing and Urban Development
40	Larceny - pass-through purchases	PHA employee	Procurement	An employee buys merchandise at a lower price and resells it to the PHA at a higher price and keeps the difference.
41	Larceny - purchasing and receiving	PHA employee	Inventory	An employee does not report all items received in PHA records and steals unreported items.
42	Larceny-false or unauthorized	PHA employee	Accounting or Financial Reporting	An employee uses an internal transfer to transfer funds to their personal account.

#	Fraud Scheme	Actor	Fraud Risk Entry Point	Fraud Scheme Description
	transfers from internal accounts			
43	Larceny- returning merchandise for cash	PHA employee	Procurement	An employee purchases products from a related party vendor, returns the products, and splits the cash refund with the vendor.
44	Mischaracterized expenses - personal purchases	PHA employee	Expense reimbursement	An employee pays for nonbusiness related purchases or personal purchases. The scheme may be carried out by including an invoice for personal purchases for reimbursement or using a PHA credit card to make personal purchases. * American Falls Housing Authority Executive Director Sentenced for Embezzlement Office of Inspector General, Department of Housing and Urban Development
45	Misuse of assets - system password compromise	Individual	Email	Individuals that had legitimate access to sensitive PHA systems for a limited time but were not terminated are able to do improper transfers or change accounting records.
46	Misuse of PHA assets	A PHA employee	Inventory	An employee uses a PHA asset such as a vehicle for his personal use.
47	Overstated expenses	PHA employee	Expense reimbursement	An employee submits an expense for reimbursement after altering the invoice to increase the amount.
48	Overstated expenses	Contractor	Procurement	A contractor delays the contract deliverable to allow unnecessary costs to be incurred.
49	Overstated expenses - contractor overbilling	Contractor, or subcontract or	Expense reimbursement	A contractor intentionally charges a PHA more than the agreed-upon price in the contract by submitting an inflated invoice.

#	Fraud Scheme	Actor	Fraud Risk Entry Point	Fraud Scheme Description
50	Overstated expenses - falsified wages-	Contractor or subcontract or	Expense reimbursement	A contractor or subcontractor inflated the cost of labor by falsifying the wage rates or the hours worked on a payroll submitted to the PHA for payment.
51	Overstated expenses - falsified wages-	PHA employee	Payroll	An employee is paid while on leave, without working, or more than the hours worked. * Former Housing Authority Payroll Clerk Admits to Stealing \$575K Office of Inspector General, Department of Housing and Urban Development
52	Overstated expenses-change orders	Contractor	Procurement	After being awarded the contract, a contractor submits false or inflated change orders to a PHA to increase costs. Change orders may be for items intentionally left out of a proposal to make bid more appealing or add unnecessary work.
53	Pay-and-return	PHA or contractor employee	Expense reimbursement	An employee, especially at smaller PHAs with less resources for segregation of duties, overpays a vendor. When the vendor returns the excess funds, the employee keeps the funds for personal use.
54	Phishing schemes	Individual	Email	PHA employees receive email that tricks them into providing sensitive banking or credit card information.
55	Purchasing and receiving - defective manufacturing	Contractor or subcontract or	Procurement	A contractor knowingly provides a product that was not manufactured as required in the contract. * Former Chairman of the Village of Hempstead Housing Authority Sentenced to 10 Years in Prison for Fraud and Corruption Office of Inspector General, Department of Housing and Urban Development
56	Purchasing and receiving-product substitution	Contractor	Procurement	A contractor delivers goods or services to a PHA that do not conform to the contract.

#	Fraud Scheme	Actor	Fraud Risk Entry Point	Fraud Scheme Description
57	Purchasing -split purchases	PHA employee	Procurement	An employee splits a single purchase into two or more purchases to remain below upper-level review or competitive bidding thresholds. This may involve awarding purchases to a contractor with whom the employee is conspiring.
58	Shell company or organization	PHA, or contractor employee	Expense reimbursement	<p>An employee sets up a fraudulent organization or vendor and bills the PHA for products that were not provided or services that were not performed.</p> <p><u>*Former Chester Housing Authority Director of Public Housing, His Chief Assistant, and Contractor Sentenced for Bribery and Fraud Schemes Office of Inspector General, Department of Housing and Urban Development*</u></p>

Appendix B – Management Response



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-5000

OFFICE OF PUBLIC AND INDIAN HOUSING
OFFICE OF PUBLIC HOUSING INVESTMENTS

DATE: December 9, 2025

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

FROM: Marianne Nazzaro, Deputy Assistant Secretary, Office of Public Housing Investments MARIANNE NAZZARO
Digitally signed by MARIANNE NAZZARO
DN: cn = MARIANNE NAZZARO, c = US, o = U.S. Department of Housing and Urban Development, ou = Department of Housing and Urban Development, office = Public and Indian Housing
Date: 2025.12.09 17:26:47 -0500

SUBJECT: Management Confirmation Regarding the Recommendations from the September 25, 2025, draft Audit Titled, “Potential Fraud Risks and Schemes for HUD’s Capital Fund Program, 2026-LA-000X.”

The Office of Public and Indian Housing (PIH) Office of Public Housing Investments (OPHI) reviewed the subject draft report and confirms that we do have comments on the recommendations at this time, specifically as it relates to involving stakeholders in the development of the fraud risk inventory.

Upon passage of the 2019 Payment Integrity Act, beginning in 2021 the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General (OIG), conducted several audits of HUD’s programs, including Housing Choice Voucher and Public Housing Operating Fund, to assess HUD’s anti-fraud efforts and to develop inventories of fraud risks in HUD programs. The OIG found that HUD’s fraud risk management program was in its early stages of development and recommended that HUD perform program-specific fraud risk assessments and incorporate these assessments into an agency-wide plan to further advance its program. HUD generally agreed with OIG’s recommendations and is currently working to address the recommendations.

In 2025, OIG performed a similar fraud risk and schemes audit on the Public Housing Capital Fund. However, the OIG’s recommendations expanded from the previous PIH fraud risk recommendations to involve relevant stakeholders when creating the program specific fraud risk assessment. Although OPHI generally agrees with OIG’s three recommendations, we disagree with recommendation to involve stakeholders in the development of the fraud risk inventory. We will work in collaboration with OCFO and PIH to address the following draft audit report recommendations.

Recommendation 1A: Use the fraud risks and fraud schemes HUD OIG identified and involve relevant stakeholders to create a program-specific fraud risk inventory to support HUD’s anti-fraud efforts and enhance oversight of the Capital Fund program.

HUD Response: OPHI agrees to use the fraud risks and fraud schemes HUD OIG identified to create a program-specific fraud risk inventory. OPHI does *not* agree with a requirement that it coordinate with relevant stakeholders in developing the fraud risk

www.hud.gov

inventory, particularly those that are subject to the assessment. Rather, OPHI will coordinate with stakeholders if and as necessary to complete the fraud risk inventory. OPHI aims to synchronize with other HUD programs' fraud risk efforts and remain consistent where HUD considers prudent.

Recommendation 1B. Communicate Capital Fund program fraud risks and schemes to all its stakeholders, including PHAs, to increase program effectiveness.

HUD Response: OPHI agrees with this recommendation and will work in collaboration with OCFO and PIH to implement it.

Recommendation 1C: Determine whether data currently collected from PHAs can be leveraged to identify and mitigate fraud risks and consider whether any additional data needs to be collected or systems enhanced to mitigate fraud risks.

HUD Response: OPHI agrees with this recommendation and will work in collaboration with OCFO and PIH to implement it.

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 David Fleischman, Director, Office of Capital Improvements at (202) 402-2071 or David.Fleischman@hud.gov.