

GAO@100 Highlights

Highlights of [GAO-21-177](#), a report to congressional requesters

Why GAO Did This Study

In response to a historic string of natural disasters, Congress appropriated approximately \$39.5 billion in CDBG-DR grant funds in 2017 through 2019, with most of the funding designated for Texas, Florida, Puerto Rico, and the U.S. Virgin Islands. However, accompanying this unprecedented amount of funding is an increased vulnerability to fraud given that CDBG-DR involves multiple factors.

GAO was asked to review a range of disaster recovery issues following the 2017 disaster season. This report addresses: (1) the fraud risks and risk environment of CDBG-DR and their impacts; and (2) the steps HUD has taken to assess fraud risk agency-wide, and specifically for CDBG-DR, in alignment with leading practices. GAO reviewed DOJ public announcements and HUD OIG enforcement cases to identify CDBG-DR fraud risks. GAO assessed HUD's procedures against leading practices in the Fraud Risk Framework. GAO interviewed HUD officials responsible for CDBG-DR and fraud risk assessment; and conducted site visits to Florida and Texas, selected partly for the amount of CDBG-DR funds they received, among other factors.

What GAO Recommends

GAO makes two recommendations, including that HUD comprehensively assess fraud risks to CDBG-DR and involve relevant stakeholders in the assessment. HUD neither agreed nor disagreed with our recommendations, and instead offered a description of mitigating actions. GAO continues to believe the recommendations are warranted.

View [GAO-21-177](#). For more information, contact Rebecca Shea, (202) 512-6722 or SheaR@gao.gov

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DISASTER RECOVERY

HUD Should Take Additional Action to Assess Community Development Block Grant Fraud Risks

What GAO Found

GAO identified four categories of fraud risks facing the Department of Housing and Urban Development's (HUD) Community Development Block Grant – Disaster Recovery (CDBG-DR) from 2007 to 2020, including risks from contractors, disaster recovery applicants, grantees, and others, as shown below. In total, we identified 78 cases from Department of Justice (DOJ) public announcements and 110 HUD Office of Inspector General (OIG) enforcement cases. For example, in 2012 following Hurricane Sandy, a New Jersey couple applied for disaster assistance and fraudulently received \$79,000 in CDBG-DR funds, according to HUD OIG records. The couple was convicted of conspiracy, falsification, and theft and was sentenced to 5 years imprisonment. The funding was for a seaside property they fraudulently claimed was their primary residence, but was later determined to be a summer vacation home that was ineligible for assistance. GAO also found that the CDBG-DR operates in a decentralized risk environment that may make it vulnerable to fraud since CDBG-DR funds flow through a number of entities before reaching their intended beneficiaries. In addition, the risk environment in which CDBG-DR operates may contribute to negative financial impacts, such as improper payments. Fraud can have nonfinancial impacts as well, such as fraudulent contractors obtaining a competitive advantage and preventing other businesses from obtaining contracts.

Fraud Risks of Department of Housing and Urban Development's (HUD) Community Development Block Grant – Disaster Recovery (CDBG-DR)



Contractors and vendors

These fraud risks include bid rigging, billing fraud, and misrepresenting qualifications or eligibility.



Disaster recovery grantees and their subrecipients

These fraud risks include embezzlement and misrepresentation of impacted and distressed areas.



Disaster assistance applicants

These fraud risks include false damage claims, false eligibility claims, and falsified application documents.



General or cross-cutting

These fraud risks include collusion in contracts and bid manipulation; bribery and kickbacks; and corruption.

Source: GAO analysis. | GAO-21-177

HUD has taken some steps to assess fraud risks agency-wide. For example, HUD conducts an agency-wide assessment of risks through a Front-End Risk Assessment, which also considers fraud risks. In 2020, HUD redesigned its agency-level approach to evaluate fraud risks through its Fraud Risk Management Maturity Model. While HUD has taken some steps to assess fraud risks agency-wide, GAO found that HUD has not conducted a comprehensive fraud risk assessment of CDBG-DR, as called for in GAO's Fraud Risk Framework. Further, HUD's current fraud risk approach does not involve relevant stakeholders such as grantees. Leading practices include tailoring the fraud risk assessment to the program and also involving relevant stakeholders responsible for the design and implementation of the program's fraud controls in the assessment process. Ensuring that a fraud risk assessment is completed specifically for CDBG-DR may provide greater assurance that HUD addresses CDBG-DR fraud risks, including ones identified in this report.