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The City and County of Honolulu Should Enhance 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 City and County of Honolulu’s Department of Budget and Fiscal Services’ and Department of Community Services’ (the City) practices for preventing, detecting, and responding to fraud in the administration of more than \$25 million in HUD’s Emergency Solutions Grant Cares Act (ESG-CV) program funding.

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 1,379 percent increase to HUD’s annual ESG program funding in 2020. The ESG-CV funding the City received represented a 3,640 percent increase from its annual formula ESG grant allocation.

The audit found that the City’s approach to fraud was reactive, not proactive, and did not include robust antifraud practices. The City had some specific antifraud controls but did not include best practices, such as the use of data analytics to identify potential fraud. The audit also revealed that without a formal fraud risk management framework in place, there is an increased risk of fraud being undetected and unreported. These deficiencies resulted in the lowest desired maturity goal state -- Ad Hoc¹ -- for the City’s antifraud initiatives and put more than \$25 million in ESG-CV funds administered by the City at a greater risk of fraud.

“Fraud risk management is an essential part of any organization’s internal controls, even during challenging times such as the pandemic,” said Inspector General Rae Oliver Davis. “We commend the City for its willingness to improve its fraud mitigation efforts and look forward to working together to enhance its antifraud program.”

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.

HUD OIG recommended that HUD instruct the City to (1) improve or enhance its antifraud efforts for the ESG program and incorporate fraud risk management practices consistent with governmentwide best practices and (2) obtain training or technical assistance on the implementation of fraud risk management practices.

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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