The New York City Housing Authority Should Enhance Its Fraud Risk Management Practices

Audit Report Number: 2025-FO-1001

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Subject: The New York City Housing Authority, New York City, NY, Should Enhance Its Fraud Risk
         Management Practices for its Programs Funded by the U.S. Department of Housing and Urban
         Development

Attached are the U.S. Department of Housing and Urban Development (HUD), Office of Inspector
General's (OIG) final results of our audit of the New York City Housing Authority's fraud risk management
when administering programs funded by HUD.

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, as amended, 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 Brittany Wing,
Audit Director, at (202) 320-7296.

Highlights

The New York City Housing Authority Should Enhance Its Fraud Risk Management Practices | 2025-FO-1001

What We Audited and Why

Fraud poses a significant risk to the integrity of federal programs and erodes public trust in government. For the U.S. Department of Housing and Urban Development's (HUD) housing programs, fraud results in individuals and families not receiving needed rental assistance and increases the risk that its residents live in unacceptable conditions. Departments are required by law to develop and maintain governance structures, controls, and processes to safeguard resources and assets. A robust fraud risk framework helps to ensure that programs fulfill their intended purpose and that funds are spent effectively. HUD relies on public housing authorities (PHAs) to detect and prevent fraud, waste, and abuse in its housing programs.

We audited the New York City Housing Authority's (NYCHA) fraud risk management maturity with the objective of assessing its fraud risk management practices for preventing, detecting, and responding to fraud when administering HUD-funded programs. We chose NYCHA because it is HUD's largest PHA, administering billions of dollars in HUD funding and because its programs receive over 25 percent of HUD's rental assistance funding nationwide.

Additionally, recent investigations have highlighted the threat that fraud risk presents to NYCHA's programs. In February 2024, HUD's Inspector General joined the U.S. Attorney for the Southern District of New York and other law enforcement partners to announce the unsealing of the largest number of Federal bribery charges on a single day in U.S. Department of Justice history that resulted in the charging of 70 current and former NYCHA employees due to alleged involvement in pay-to-play schemes for maintenance contracts.

What We Found

NYCHA has established several antifraud controls, but its processes to mitigate fraud risks are largely reactive. NYCHA is actively taking steps to formalize a more proactive fraud risk management approach and is progressing toward a more mature antifraud program. We assessed NYCHA's antifraud efforts against established best practices to determine the maturity of its fraud risk management practices. We found NYCHA does not have a comprehensive strategy or framework for identifying and responding to fraud risks. Specifically, it did not (1) assess fraud risks across NYCHA or develop a process to regularly conduct assessments to identify and rank fraud risks, (2) develop a response plan for fraud risks based on a fraud risk assessment, and (3) implement a process to monitor and evaluate the effectiveness of fraud risk management activities. It has not yet implemented a formalized fraud risk management program because it was focused in recent years on complying with the provisions of an agreement with HUD. We also attribute the lack of a formal program to the lack of formal guidance from HUD to PHAs regarding their fraud risk management responsibilities. Nevertheless, NYCHA leadership recognizes the need and is taking steps to implement a more formalized fraud risk management process.

As a significant administrator of billions of dollars in Federal funds, NYCHA is responsible for assessing and effectively mitigating fraud risks. Due to the size and complexity of NYCHA, as well as its high fraud risk exposure, it should aim for a higher fraud risk maturity level. Without a comprehensive fraud risk management framework or antifraud strategy, HUD funding will continue to be at an increased risk of fraud, and NYCHA will not be positioned to understand how it can best improve its programs to detect fraud or potential fraud.

What We Recommend

We recommend that HUD instruct NYCHA to (1) develop a strategy to comprehensively assess and respond to fraud risks across NYCHA and (2) based on that strategy, complete an assessment of fraud risks across NYCHA, create response plans for fraud risks that are identified, and develop procedures to monitor and evaluate the effectiveness of fraud risk management activities.

Further, we recommend that HUD (3) assess whether HUD's other extra-large PHAs[1] have mature fraud risk management programs and develop a strategy to reduce the fraud risk exposure to HUD and (4) work with HUD's Chief Risk Officer to 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.

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[1] Extra Large PHAs are those that manage 10,000 or more units.

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Background and Objective

Fraud risk management helps to ensure program integrity by continuously and strategically mitigating both the likelihood and effects of fraud. When organizations can identify and mitigate fraud risks, fraud may be less likely to occur. Although the occurrence of fraud in an organization indicates that there is a fraud risk, a fraud risk can still exist even if no one has yet committed fraud or has identified its occurrence. Effectively managing fraud risk helps to ensure that programs fulfill their intended purpose, funds are spent effectively, and assets are safeguarded. The fraud risk management framework can assist agencies in accomplishing these goals.

According to the U.S. Government Accountability Office's (GAO) Standards for Internal Control in the Federal Government[2] and the Committee of Sponsoring Organizations' (COSO) Internal Control-Integrated Framework,[3] assessing the risk of fraud is one of many principles for establishing an effective internal control system. In addition, due to the importance of this principle, both organizations have published their own fraud risk management guides with the intention to support organizations in complying with this principle. GAO and COSO make it clear that for a system of internal control to be effective, each of the principles, including "assessing the risk of fraud," must be present, functioning, and operating together in an integrated manner.

> GAO's Fraud Risk Management Framework- GAO has noted that "[f]raud poses a significant risk to the integrity of federal programs and erodes public trust in government." GAO's Standards for Internal Control in the Federal Government defines fraud as obtaining something of value through willful misrepresentation and states that management should consider the potential for fraud when identifying, analyzing, and responding to risks. In July 2015, GAO issued A Framework for Managing Fraud Risks in Federal Programs.[4] The primary audience of the Framework is managers in the U.S. Federal Government, but the leading practices and concepts described in the Framework may also be applicable to State, local, and foreign government agencies, as well as nonprofit entities that are responsible for fraud risk management. The Framework identified leading practices; encompassed control activities to prevent, detect, and respond to fraud; and identified four components – (1) assess, (2) design and implement, (3) evaluate and adapt, and (4) commit – for effectively managing fraud risks.

> COSO Fraud Risk Management Guide- COSO partnered with the Association of Certified Fraud Examiners (ACFE) to create the Fraud Risk Management Guide in 2016 and updated it in 2023. The updated guide provides a comprehensive approach to managing fraud risk, including guidance on establishing an overall fraud risk management program. The guide gives organizations, whether large or small, government or private, profit or nonprofit, the information necessary to design a plan specific to the risks for the entity. The guide lays out

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[2] On September 10, 2014, GAO updated the Standards for Internal Control in the Federal Government, which sets the standards for an effective internal control system for Federal agencies and provides the overall framework for designing, implementing, and operating an effective internal control system. Originally issued in November 1999, the Standards for Internal Control in the Federal Government is known as the Green Book. State, local, and quasi-governmental entities may also adopt the Green Book as a framework for an internal control system.
[3] In May 2013, COSO published the Internal Control – Integrated Framework to enable organizations to effectively and efficiently develop and maintain systems of internal control.
[4] GAO-15-593SP, issued July 28, 2015

five fraud risk management principles that must be present, functioning, and operating in an integrated manner to be effective. The guide also lays out two approaches that can be followed that would achieve compliance with the requirement for assessing and managing fraud risks within the Internal Control-Integrated Framework: (1) perform a comprehensive fraud risk assessment to identify specific fraud schemes and risks, assess their likelihood and significance, evaluate existing fraud control activities, and implement actions to mitigate residual fraud risks or (2) Implement the guide as a separate, compatible, and more comprehensive process to manage the organization's fraud risks as part of a broader fraud risk management program.

In order to help agencies assess and identify the current state and goal state of their antifraud program and related efforts, the U.S. Chief Financial Officers Council (CFOC) and the U.S. Department of the Treasury, Bureau of the Fiscal Service (BFS), developed Program Integrity: The Antifraud Playbook in October 2018 for use by the entire financial management community, including Federal, State, and local agencies. The Antifraud Playbook contains a maturity model that includes four (4) progressive levels of fraud risk maturity, which are defined below from the lowest to highest desired goal state.

1. <u>Ad hoc</u> – Fraud risk management processes are disorganized, even chaotic, and antifraud efforts are undocumented and in a state of dynamic change, tending to be driven in an ad hoc, uncontrolled, and reactive manner. This is not a goal state for agencies with fraud exposure.

2. <u>Initial</u> – The agency is aware of the need for a more formal fraud risk management approach, and repeatable processes have been developed. Risks are still managed largely in a reactive way.

3. <u>Operational</u> – Fraud risk management activities across the organization are aligned with controls, and information on fraud risks is aggregated and analyzed and is easily available to the necessary individuals. The goal state for agencies with low fraud risk exposure is an initial to operational maturity level.

4. <u>Leadership</u> – The agency's focus is on continually improving fraud risk management through both incremental and innovative changes or improvements. Risks are managed largely in a proactive way. The goal state for agencies with high fraud exposure is an operational to leadership maturity level.

Further, the Antifraud Playbook organizes fraud risk management into the following four (4) phases:

1. <u>Create a Culture</u>—Build a culture that is conducive to both integrity efforts and furthering antifraud measures at your agency.

2. <u>Identify and Assess</u>—Identify your fraud risks and develop a path forward for executing, repeating, and expanding a fraud risk assessment that is unique and customizable for your agency.

3. <u>Prevent and Detect</u>—Develop or strengthen antifraud controls that mitigate your highest risk areas and start or advance your fraud analytics program.

4. Insight into Actions—Use available information, either within your agency, or from external sources, and turn that insight into actionable tasks.

HUD Fraud Risk Management

HUD is required by law to manage fraud risks across its programs. Specifically, a provision of the Payment Integrity Information Act of 2019 (PIIA), codified at 31 U.S.C. § 3357, requires OMB to maintain guidelines for agencies to establish financial and administrative controls to identify and assess fraud risks and that incorporate leading practices from GAO's Fraud Risk Framework. PIIA further specifies that the guidelines shall include 1) conducting an evaluation of fraud risks and using a risk-based approach to design and implement financial and administrative control activities to mitigate identified fraud risks; 2) collecting and analyzing data from reporting mechanisms on detected fraud to monitor fraud trends and using that data and information to continuously improve fraud prevention controls, and 3) using the results of monitoring, evaluation, and investigations to improve fraud prevention, detection, and response. OMB Circular A-123, Management's Responsibility for Enterprise Risk Management and Internal Control implements this requirement and directs managers to adhere to these leading practices in their efforts to effectively design, implement, and operate an internal control system that addresses fraud risk. In turn, HUD policy implementing OMB A-123 guidance says that HUD managers have the responsibility to design, implement, and operate processes with embedded internal controls that mitigate the risk of fraud, waste, and abuse in HUD programs. It also says that to determine the effectiveness of fraud risk management activities, HUD program and support managers will routinely evaluate existing fraud risk controls.[5]

HUD OIG's September 2022 audit, "Fraud Risk Inventory for the Tenant- and Project-Based Rental Assistance, HOME, and Operating Fund Programs' CARES and ARP Act Funds", provided 32 potential fraud schemes specific to two PIH programs that had not been previously identified by HUD's fraud risk assessment. [6] In that report, the OIG recommended that PIH use the fraud risk inventory to enhance program-specific fraud risk assessments for the Tenant-Based Rental Assistance and Operating Fund programs. PIH has not taken action sufficient to address this recommendation.

Many of the fraud schemes identified in that report occur in transactions with grantees and PHAs that administer HUD funding. Notably, the audit identified bribery and kickbacks as a corruption scheme that could occur in procurements at PHAs, describing the scheme as: "[a] local official, PHA, or grantee employee solicits bribes or kickbacks in exchange for preferential treatment, such as contract awards." This exact scheme was used by 70 current and former NYCHA employees who were charged with accepting cash payments from contractors in exchange for awarding contracts.[7] The investigation of these 70 current and former employees resulted in the largest number of bribery charges on a single day in the Department of Justice's history.

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[5] Departmental Fraud Risk Management Policy (2022.1), effective date March 31, 2022, https://www.hud.gov/sites/dfiles/OCHCO/documents/20221.pdf
[6] https://www.hudoig.gov/reports-publications/report/fraud-risk-inventory-tenant-and-project-based-rental-assistance-home
[7] https://www.justice.gov/usao-sdny/pr/70-current-and-former-nycha-employees-charged-bribery-and-extortion-offenses

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The New York City Housing Authority

The New York City Housing Authority, created in 1934, is a public benefit corporation chartered under New York State Public Housing Law. NYCHA develops, constructs, manages, and maintains affordable housing for eligible low-income families in the five boroughs of New York City. NYCHA provides housing assistance to more than 500,000 New York residents, and it is the largest public housing agency (PHA) in the United States. HUD provides NYCHA with billions in Federal funding each year for rental assistance programs, which accounts for more than 25 percent of low-income rental assistance that HUD provides across the country.

To meet the funding requirements of its operation, NYCHA receives subsidies from the Federal Government, primarily HUD; New York State; and the City of New York. NYCHA primarily uses HUD funding to support Office of Public and Indian Housing (PIH) programs. More specifically, NYCHA uses PIH's Housing Choice Voucher Program funds to reimburse private landlords for their participation in providing housing for low-income families at reduced rents. The funds cover the differential between the reduced rents charged to tenants and prevailing fair market rates based on rent reasonableness. Further, NYCHA uses PIH's operating funds to provide maintenance, operating, and administrative services to federally aided low-rent public housing developments. Finally, NYCHA uses PIH's capital funds for modernization and development costs in public housing developments. In 2023, NYCHA spent more than $3.86 billion in HUD funds, as shown in table 1.

Table 1: HUD funding spent by NYCHA in 2023

HUD grant-program	Amount spent[8]
Section 8 Housing Choice Voucher Program	$1,603,154,698
PIH – operating grants	1,323,441,963
Public Housing Capital Fund	782,381,886
Covid-19-Emergency Housing Vouchers	100,827,045
Community Development Block Grant (CDBG) Entitlement	44,803,104
Mainstream vouchers	3,843,347
Lead Based Paint Capital Fund and Housing-Related Hazards Capital Fund	3,024,939
CDBG-Disaster Recovery	2,938,247
Other HUD funding	277,178
Total	**3,864,692,407**

HUD Agreement

In 2018, the United States filed a complaint against NYCHA alleging, among other things, that NYCHA had routinely failed to comply with health and safety standards and repeatedly misled HUD through false

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[8] Information obtained from NYCHA's Single Audit Report for the year ending December 31, 2023

statements and deceptive practices. The Secretary of Housing and Urban Development found NYCHA in "substantial default" of the U.S. Housing Act. HUD found that NYCHA failed to follow laws and regulations concerning lead paint; failed to provide decent, safe, and sanitary conditions; and engaged in deceptive practices to hide the condition of NYCHA properties.

On January 31, 2019, NYCHA signed an agreement with HUD, the United States Attorney's Office for the Southern District of New York, and The City of New York to remedy the physical deficiencies at NYCHA properties, ensure NYCHA's compliance with Federal law, and reform NYCHA's management structure. The agreement appointed a Federal monitor to oversee NYCHA's compliance. The agreement also required NYCHA to prepare action plans for monitor approval, setting forth policies and practices NYCHA would adopt and the specific actions it would take to achieve all the requirements of the agreement for the six pillar areas: lead, mold, heat, elevators, Public Housing Assessment System inspections, and pests. In addition, the agreement required NYCHA, in collaboration with the monitor, to prepare an organizational plan that, among other things, implemented changes to NYCHA's management, organizational, and workforce structure and overarching policies necessary or appropriate to achieve sustained compliance with the agreement.[9] The first 5-year term of the monitor concluded in February 2024 and was extended for a second 5-year term. NYCHA is not yet in full compliance with the requirements of the agreement but continues to work with the monitor to improve its compliance.

NYCHA's Challenges Preventing Micro Purchase Fraud

When repairs or construction work require the use of outside contractors, NYCHA must typically purchase the services via a bidding process, unless the value of a contract is under the micro purchase threshold of $10,000. For contracts under the micro purchase threshold, designated NYCHA staff members could hire a contractor of their choice without soliciting multiple bids. This "no-bid" process was faster than the general Authority procurement process, and selection of the contractor required approval of only the designated NYCHA staff member at the development where the contractor would perform the work.

The lack of controls around this process contributed to the U.S. Department of Justice bringing the largest number of Federal bribery charges on a single day in U.S. history,[10] charging 70 current and former NYCHA employees for alleged involvement in pay-to-play schemes for maintenance contracts.

As alleged, the defendants, all of whom were NYCHA employees during the time of the events, demanded and received cash in exchange for NYCHA contracts by either requiring contractors to pay up front as a condition for awarding the contracts or conditioning the payment for the services by requiring contractors to pay them beforehand in exchange for signing off on the completed job so the contractor could receive payment from NYCHA for the completed work. As alleged, the defendants typically demanded approximately 10 to 20 percent of the contract value—between $500 and $2,000 depending on the size of the contract—but some defendants demanded even higher amounts. In total, these

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[9] The agreement stipulated that NYCHA must consult with HUD and the Southern District of New York on its organizational plan and obtain their concurrence for it to be considered final.

[10] HUD's Inspector General joined the U.S. Attorney for the Southern District of New York and other law enforcement partners in this effort.

defendants demanded more than $2 million in corrupt payments from contractors in exchange for awarding more than $13 million worth of no-bid contracts.

Our objective was to assess NYCHA's fraud risk management practices for preventing, detecting, and responding to fraud when administering HUD-funded programs.

Results of Audit

NYCHA Manages Fraud Risk Reactively but is Moving Toward a Proactive and Formalized Approach

NYCHA has established several antifraud controls, but its processes to mitigate fraud risks are largely reactive because it has not developed a comprehensive strategy or framework for identifying and responding to fraud risks impacting the HUD programs it manages and administers. Specifically, NYCHA did not:

> (1) assess fraud risks across NYCHA or develop a process to regularly conduct assessments to identify and rank fraud risks,

> (2) develop a response plan for fraud risks based on a fraud risk assessment, or

> (3) implement a process to monitor and evaluate the effectiveness of fraud risk management activities.

However, NYCHA has some antifraud controls in place and is shifting to a more formalized approach in managing its fraud risks, progressing toward a more mature antifraud program. Based on our assessment, we determined that NYCHA's fraud risk management maturity is in the "initial" state, meaning that NYCHA's approach to fraud risk is largely reactive, but it is aware of the need for a more formal fraud risk management program, and it has developed repeatable antifraud activities. NYCHA has not yet implemented a formalized fraud risk management program because it was focused on complying with the provisions of the agreement with HUD and HUD did not issue formal guidance to PHAs regarding fraud risk management responsibility at PHAs. In spite of this, NYCHA recognized the need and is taking steps to implement a more formalized fraud risk management process. However, until NYCHA develops and implements a comprehensive fraud risk management framework or strategy, approximately $3.3 billion in HUD funding, annually, will continue to be at an increased risk of fraud; and NYCHA will not be positioned to understand how it can best improve its activities to detect fraud or potential fraud.

NYCHA's Fraud Risk Management Reflects Opportunities To Improve Its Antifraud Efforts

We assessed the current state of NYCHA's fraud risk management practices using the Antifraud Playbook's Program Maturity Model, which organizes the four phases of fraud risk management into the following: (1) create a culture, (2) identify and assess, (3) prevent and detect, and (4) turn insight into action. Our review concluded that NYCHA's overall fraud risk management practices are in the "initial" level of maturity. In this state, the entity is aware of the need for a more formal fraud risk management approach, and repeatable processes have been developed; however, risks are still managed largely in a reactive way.

The Antifraud Playbook's Maturity Model recommends a maturity level of "operational" or "leadership" for entities with high fraud exposure. Due to the size, complexity, and prior history of false statements

and deceptive practices,[11] we consider NYCHA to have high fraud exposure. NYCHA's massive programs warrant continuous and strategic monitoring to reduce the likelihood that fraud will take funds away from families and vulnerable populations who need housing assistance. Therefore, NYCHA should aim for a higher fraud risk maturity level. To achieve the desired goal state, NYCHA would need to go beyond the minimum requirements set forth in 2 CFR (Code of Federal Regulations) part 200 and follow the best practices organizations such as GAO and COSO have published.

Phase 1 – create a culture maturity level: NYCHA's leadership is committed to strengthening antifraud efforts, but NYCHA does not have a formal fraud risk management program with a dedicated entity to lead and oversee fraud risk management activities.

The Antifraud Playbook encourages agencies[12] to build a culture that is conducive to both integrity efforts and furthering antifraud measures at the agency. GAO's Framework for Managing Fraud Risks in Federal Programs provides that management should create an organizational culture to combat fraud at all levels of the agency and have a dedicated entity to lead the fraud risk management activities. We assessed NYCHA's maturity within this phase as "initial," because while leadership presents a strong antifraud tone and is committed to strengthening antifraud efforts, it does not have a formal fraud risk management program. See NYCHA's current antifraud activities and areas for improvement in the figure 1 below.

Figure 1: Create a Culture

Current Antifraud Activities	Areas for Improvement
NYCHA leadership shares an antifraud tone and is committed to strengthening antifraud efforts.	NYCHA has not formally evaluated and documented its exposure to fraud.
NYCHA has several initiatives in place to promote fraud awareness.	NYCHA has not developed an antifraud strategy to combat fraud at all levels.
Some departments have dedicated people working on fraud mitigation activities.	NYCHA has no dedicated entity to lead and oversee fraud risk management activities.

NYCHA officials indicated that they had not yet implemented a formal fraud risk management program and had not designated a component or individual to design and oversee its fraud risk management activities. In addition, NYCHA officials indicated that they had not yet developed a comprehensive antifraud strategy that would help demonstrate and communicate NYCHA's commitment and approach to combating fraud. We found that NYCHA has not yet formally documented its fraud risk exposure, which would help management understand the inherent vulnerabilities the entity faces.

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[11] See the Background and Objective section for additional information on the HUD agreement.
[12] The entire financial management community, including Federal, State, and local agencies can use the Program Integrity: The Antifraud Playbook.

NYCHA's Progress Toward a More Mature Antifraud Program

Although NYCHA did not have a formal fraud risk management program, during our interviews, NYCHA officials demonstrated commitment and openness to improving NYCHA's fraud risk management activities. Most notably, NYCHA's chief executive officer indicated that NYCHA has recently hired a new internal audit contractor whose responsibilities will include conducting an entity-wide risk assessment that will assess fraud risks and help NYCHA develop an antifraud strategy. Several other executives reported recognizing the need for change upon their arrival and stated that they were in different stages of implementing changes to increase and improve accountability, automation, and analytics controls and remove known deceptive practices throughout NYCHA. All of the department officials we interviewed demonstrated awareness of how to report fraud and indicated that they had a positive working relationship with the Inspector General for the New York City Housing Authority (NYCHA IG). Further, NYCHA has policies and procedures that describe employees' responsibility to report potential fraud.

NYCHA has also developed and implemented certain antifraud controls and activities that promoted fraud awareness. For example, NYCHA's human resources manual contains policies and rules to avoid conflicts of interest and other unethical behavior. There is also a procurement ethics policy that outlines the applicable laws, statutes, regulations, and overall Authority policies and procedures that employees, consultants, and temporary staff are required to follow. In addition, the Compliance Department has issued compliance advisory alerts that contained fraud-related topics. NYCHA officials also mentioned that they have issued newsletters to internal employees and vendors, featuring antifraud resources. Although there is no formal fraud-specific forum through which to discuss fraud-specific matters at NYCHA, officials told us that they have regular meetings with other departments, during which fraud-related matters are sometimes discussed.

All NYCHA employees take Corruption Prevention Awareness and Conflicts of Interest Prevention trainings provided by the New York City Department of Investigation and the New York City Conflicts-of-Interest Board, respectively. Further, according to NYCHA officials, they developed a Compliance 101 and Procurement Ethics training,[13] which covers fraud topics to some extent. In response to the recent micro purchase fraud, NYCHA began requiring that superintendents and other staff members involved in the micro purchase process take a training on corruption prevention awareness annually.

Phase 2 – identify and assess maturity level: NYCHA has not formally assessed fraud risks that could negatively affect its program effectiveness.

The Antifraud Playbook encourages agencies to identify fraud risks and develop a path forward for executing, repeating, and expanding a fraud risk assessment that is unique and customizable for the agency. Further, managers who effectively assess fraud risks attempt to fully consider the specific fraud risks the agency faces, analyze the potential likelihood and impact of fraud schemes, and then document prioritized fraud risks. Our assessment of NYCHA's maturity within this phase identified its status as "ad hoc," because NYCHA has not comprehensively identified and assessed fraud risks. While NYCHA has plans to improve in this phase, these plans have not yet been executed. See NYCHA's current antifraud activities and areas for improvement in the figure 2 below.

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[13] The procurement ethics training is mandatory for staff involved in the procurement process, as well as for vendors and contractors. The Compliance 101 training is mandatory for all employees.

Figure 2: Identify and Assess

Current Antifraud Activities	Areas for Improvement
Some departments have taken actions that have identified some fraud schemes and entry points.	NYCHA has not developed a listing of potential fraud schemes and entry points to discover opportunities for fraud.
NYCHA is planning to conduct its first entity-wide fraud risk assessment.	NYCHA has not performed an entity-wide fraud risk assessment to rank opportunities for fraud and does not have a process to regularly conduct fraud risk assessments.

NYCHA has not performed an entity-wide fraud risk assessment and has not yet developed a process to plan and conduct fraud risk assessments regularly. Further, NYCHA has not developed a listing of potential fraud schemes and entry points, which is used as a starting point and foundation of a fraud risk assessment process, as recommended by the Antifraud Playbook. As a result, NYCHA has not:

(1) determined a fraud risk tolerance,

(2) examined the suitability of existing controls in mitigating fraud and prioritizing residual fraud risks, and

(3) determined a fraud risk profile as called for in this phase.

Until NYCHA implements a fraud risk assessment process its management will continue to miss opportunities to discover and mitigate other opportunities for fraud beyond those they are already aware of.

NYCHA's Progress Toward a More Mature Antifraud Program

In the past few years, some departments took actions that may assist NYCHA in developing an entity-wide fraud risk assessment process. For example, the Finance Department used a contractor to assess and mitigate some of its fraud risks on its treasury, bank reconciliations, and receivables processes and plans to establish this assessment as a recurring process. In addition, the Cybersecurity and Information Technology Risk Management Division is implementing a Cybersecurity Program in phases, which would involve conducting proactive risk assessments that will allow the department to identify, evaluate, and prioritize potential cybersecurity threats systematically. Since fraudsters may exploit some cybersecurity vulnerabilities to commit fraud, properly managing those risks helps to reduce the risk of fraud.

The Compliance Department also uses risk indicators to rank housing developments and assist with selecting and prioritizing sites for its ongoing onsite monitoring assessments. These monitoring assessments are focused on the housing developments' compliance related to lead, mold, pests, heating, elevators, and deceptive practices, among other things. While most of these risks are specific to health

and safety concerns, since fraud risks could also be nonfinancial in nature, management may use some of the risk indicators as part of a comprehensive fraud risk assessment. In other words, there could be significant fraud risks related to ensuring safe and healthy housing for families that could impact the integrity of HUD's housing programs.

As part of New York City's anticorruption program, NYCHA annually submits a self-evaluation questionnaire that outlines corruption vulnerabilities from its own perspectives, reflecting what it views as problems and the fixes it employs.   Although a useful tool, the questionnaire does not contain all of the elements that would constitute a fraud risk assessment, such as detailing inherent risks, likelihood and impact, and fraud risk tolerance. In addition, NYCHA reevaluated its internal audit function and recently outsourced it. In response to this audit, NYCHA officials told us that they also intended to use the contractor to perform an entity-wide risk assessment that would consider fraud risks and would assist in establishing an antifraud strategy. Performing an entity-wide risk assessment and establishing an antifraud strategy would advance NYCHA closer to the desired maturity level.

Phase 3 – prevent and detect maturity level: NYCHA has some antifraud activities in place to prevent and detect fraud, but additional action is needed to ensure its controls effectively target NYCHA's most significant risks.

The Antifraud Playbook encourages agencies to develop or strengthen antifraud controls that mitigate the highest risk areas and to start or advance a fraud analytics program. Managers who effectively manage fraud risks in this phase design and implement specific control activities, including policies, procedures, techniques, and mechanisms, to prevent and detect potential fraud. Our assessment of NYCHA's maturity within this phase identified its status as "initial," because NYCHA has developed some antifraud controls and is developing more, but without a risk assessment the controls developed may not be adequate. See NYCHA's current antifraud activities and areas for improvement in the figure 3 below.

Figure 3- Prevent and Detect

Current Antifraud Activities	Areas for Improvement
Through informal assessment, NYCHA determined that certain areas of its programs were inherently risky. In response, NYCHA developed or is in the process of developing control activities to respond to some of the known fraud risks.	NYCHA does not have an entity-wide antifraud strategy and response plan to ensure controls adequately address risk.
NYCHA is using some analytical tools to combat fraud and is starting to develop more.	NYCHA does not have a formal fraud analytics data program and documentation of analytical fraud controls is often lacking.

Because NYCHA has not conducted an enterprise fraud risk assessment, it has not gotten to the point of

(1) developing a fraud risk profile,

(2) creating a response plan for the fraud risks identified during a fraud risk assessment, or

(3) developing an antifraud strategy based on the fraud risk profile.

Therefore, NYCHA has not reached the stage that would allow management to design and implement fraud-specific control activities to prevent and detect potential fraud tailored to the identified and prioritized fraud risks. Without a fraud risk assessment, it is difficult to determine whether the controls in place fully cover NYCHA's fraud risks. Based on recent bribery and extortion charges, in which more than 70 individuals exploited NYCHA's control gaps, there is a higher risk that other control gaps exist unknown to management.

NYCHA has also not developed a fraud-specific data analytics program in its antifraud efforts. According to the Antifraud Playbook, data analytics tools are the most effective antifraud controls that an organization can put into place. Further, ACFE's Occupational Fraud 2024: A Report to the Nations[14] found that organizations using data analytics techniques to fight fraud reduced the cost of fraud schemes by 50 percent and reduced the duration of fraud by 50 percent. While NYCHA uses some data analytics that could detect fraud, documentation of these analytics was often lacking, and fraud identification was usually not the primary purpose of the analytics. A fraud-specific data analytics program could help NYCHA to:

(1) identify additional sources of available data,

(2) develop more robust and comprehensive fraud analytics,

(3) ensure that high-risk areas are covered, and

(4) continuously improve its analytics.

NYCHA's Progress Toward a More Mature Antifraud Program

Although NYCHA has not completed a formal entity-wide fraud risk assessment, through informal assessment, it determined that certain areas of its programs were inherently risky. In response, NYCHA developed or is in the process of developing control activities to prevent, detect, and respond to some of the known fraud risks or risky areas. However, without conducting a fraud risk assessment, NYCHA could be unaware of other areas that might be at risk and might remain unaddressed. Conducting a comprehensive fraud risk assessment would allow management to design and implement additional fraud-specific control activities to mitigate the fraud risks identified in that assessment. Some of the controls we identified are listed below:

- The Finance Department proactively contracted an outside vendor to complete an assessment of financial controls and procedures. In response, the Finance Department developed a response plan to address control gaps identified and made several changes to close the gaps in the areas of accounts receivable, bank reconciliations, treasury, and accounts payable areas. The Department

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[14] ACFE's Occupational Fraud 2024: A Report to the Nations is based on the ACFE 2023 Global Fraud Survey, conducted from July to September 2023. Respondents were presented with 86 questions regarding the details of fraud cases they had investigated. ACFE received 1,921 responses, which were used in developing the report.

also informed us that it was moving toward establishing an internal process to conduct those assessments in a recurring manner.

- The Asset and Capital Management Department identified project management risks related to delivery of capital projects (such as schedule, budget, safety, quality, and contract management) and strengthened controls in the information system to mitigate them. Over the past 2 years, the Department reorganized to strengthen performance, engagement, and accountability. It included increased tracking against original baseline estimates, updated guidance, automated processes and forms, and system controls. Increased tracking and accountability can help with fraud risk reduction.

- The Cybersecurity and Information Technology Risk Management Division is implementing a framework that contains concepts similar to those in the fraud risk management framework but focused on system vulnerabilities. Properly managing those types of vulnerabilities can help reduce the risk of fraud.

- The Quality Assurance Division was created to address the inherent risks in ensuring high-quality workmanship from vendors and staff. The Division conducts random inspections and is involved in employee misconduct investigations. The Division indicated that it is working on an analytical tool that would improve how it reviews work orders and identify tickets workers inappropriately closed before the work was completed. Additionally, it is in the process of rolling out a virtual logbook that would allow for increased and coordinated unit inspections and oversight.

- The Compliance Department uses risk scoring dashboards to identify red flags at properties and with specific workers. It also conducts internal reviews and investigations or makes referrals for inspection to the Quality Assurance or Environmental Health and Safety Divisions or NYCHA IG, which have assisted in uncovering instances of fraud. Further, the Compliance Department performs skill trades monitoring, which involves reviewing the performance of plumbers, carpenters, plasterers, and painters. This activity can help identify and deter potential instances of fraud, such as time and attendance fraud among trade workers and false statements related to the completion of work orders. The Compliance Department conducts other investigations involving mold, heat, and pest area workers.

- The Compliance Department's Inquiry Review and Assessment Team manages hotline complaints, which could indicate potential fraud, through a portal, and assigns them to the correct unit for further action.

- The Leased Housing Department uses Enterprise Income Verification to verify tenant income and external systems to corroborate fraud allegations. Further, the Leased Housing Department has a Fraud and Abuse Unit that is responsible for investigating all potential fraud and program abuse cases associated with leased housing.

- In 2022 and 2023, the Procurement Department added procedures related to vendor responsibility and disqualification, respectively, that helped NYCHA in vetting contractors and protecting the integrity of NYCHA's procurement practices. NYCHA would contract with only those vendors determined to be responsible. Causes for disqualification include conviction of fraud and other criminal offenses or conduct indicating a lack of business honesty or integrity.

Additionally, the department recently started using data sharing to prequalify and exclude vendors for purchases including micro purchases.

- The Procurement, Compliance, and Information Technology Departments recently developed a data tool to identify trends and potential red flags by properties and vendors related to micro purchases. This action was in response to the recent micro purchase fraud.

- NYCHA's leadership appears to have a strong feedback loop with the NYCHA IG, was responsive to the NYCHA IG's recommendations, and was working closely with the NYCHA IG on resolutions.

Phase 4 – insight into action maturity level: NYCHA does not monitor or evaluate the effectiveness of its antifraud activities.

The Antifraud Playbook encourages agencies to use available information, either within the agency or from external sources, and turn that insight into actionable tasks. Effective management in this phase would involve managers' monitoring and evaluating the effectiveness of preventive activities, including fraud risk assessments and the antifraud strategy, as well as controls to detect fraud and response efforts. Our assessment of NYCHA's maturity within this phase identified its status as "ad hoc," because NYCHA does not monitor or evaluate the effectiveness of its antifraud activities.   See NYCHA's current antifraud activities and areas for improvement in the figure 4 below.

Figure 4- Insight Into Action

Current Antifraud Activities	Areas for Improvement
NYCHA has some processes in place to examine potential fraud internally, act on it, and make process changes to mitigate future risk.	NYCHA does not have a centralized listing of potential fraud schemes identified by management and how they were handled.
The Finance Department is moving toward establishing a recurring process to monitor and evaluate the effectiveness of its controls.	NYCHA does not have a process to monitor and evaluate the effectiveness of fraud risk management prevention and detection activities.

NYCHA has not developed or formalized a monitoring process to evaluate how well its fraud risk management activities function across the enterprise. A NYCHA official indicated that they were not aware of any process at NYCHA to monitor the effectiveness and impact of some of its antifraud activities, such as fraud awareness initiatives, and some of the controls that detect and prevent fraud. Further, NYCHA does not maintain a listing showing potential fraud schemes identified by management and how they are addressing them at the enterprise level. Without this listing, NYCHA is missing opportunities to analyze potential instances of fraud for real-time monitoring of fraud trends and identification of potential control deficiencies, as GAO's fraud risk framework recommends.

Since NYCHA is lacking key components of a fraud risk management framework, such as an entity-wide fraud risk assessment and a formal antifraud strategy, it has not matured its fraud risk management

activities to reach the point of establishing a formal monitoring program that could evaluate the effectiveness of key fraud risk management activities and continuously adapt and improve them based on the existing and emerging risks across the entity.

<u>NYCHA's Progress Toward a More Mature Antifraud Program</u>

While there is no formal process to monitor and evaluate the effectiveness of antifraud controls, some departments have taken steps toward this goal. For example, the Finance Department is moving toward establishing a recurring process to monitor and evaluate the effectiveness of some of the Department's controls for the risks identified through a self-assessment modeled after the internal control review a contractor performed a few years earlier. Further, some of the Compliance Department's work contributes toward improvements in fraud controls. For example, the Compliance Department's Transactions Monitoring Unit regularly reviewed development procurement practices during NYCHA's Compliance Department's Onsite Monitoring Program, which resulted in recommendations that improved controls to prevent fraud. Other departments learned from exploited fraud risks and implemented additional controls to mitigate them.

Additionally, NYCHA has some processes in place to examine potential fraud internally, act on it, and make process changes to mitigate future risk. For example, the Leased Housing Department refers potential violators to its fraud unit or the NYCHA IG for investigation, depending on the nature of the case. The fraud unit has specific procedures on how to review and address potential fraud related to misreporting income or household composition. In addition, following the recent micro purchase fraud, NYCHA have taken action to improve its processes, including accelerating the development of a micro purchase prequalification list for vendors and contractors. This list would help NYCHA ensure that all vendors meet necessary standards for responsibility and integrity, enhancing the efficiency and transparency of the vendor selection process. Fraud, corruption, and debarment are some of the reasons for removing a vendor from the list.

NYCHA Was Focused on Complying With the Agreement's Clauses

NYCHA's overall fraud risk management has not reached the desired goal state because management was focused on complying with the clauses in its agreement with HUD to be able to exit its current substantial default status.[15] Since 2021, NYCHA has been working through a phased transformational plan that includes the creation of new departments, restructuring across NYCHA, new technology, and changes in leadership. Therefore, NYCHA had been focusing on allocating resources to implement these organizational changes and ensure compliance with the agreement.

NYCHA has not established an overarching, dedicated antifraud entity or clearly designated officials to lead and oversee activities to prevent and detect fraud. Leading and overseeing fraud risk management activities would include leading the development of an antifraud strategy, ensuring effective

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[15] Specifically, in 2018, the United States filed a complaint against NYCHA alleging, among other things, that NYCHA had routinely failed to comply with health and safety standards and repeatedly misled HUD through false statements and deceptive practices. See the Background and Objective section in this report for additional details.

implementation of the antifraud strategy across NYCHA, and establishing a monitoring process to evaluate the effectiveness of NYCHA's antifraud activities and continually look for improvements.

As NYCHA's transformational plan had been underway for 3 years, we can see evidence that NYCHA is expanding its focus beyond the transformational plan. NYCHA reported that it is evaluating its efforts under the transformational plan and reassessing its overall strategy, which would provide an opportunity to look beyond the issues that required its immediate focus in 2019.

HUD Has Not Issued Formal Guidance to PHAs Regarding the Best Fraud Risk Management Practices

As a significant administrator of billions of dollars in Federal funds, NYCHA is responsible for assessing and effectively mitigating fraud risks impacting the programs it administers on behalf of the Federal Government. However, HUD officials confirmed that HUD does not require PHAs to implement a specific fraud risk management framework. The Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards at 2 CFR 200.303(a)[16] require PHAs to establish and maintain effective internal control over Federal programs and state that those controls should comply with the guidance in Standards for Internal Control in the Federal Government, issued by the Comptroller General of the United States, or the COSO Internal Control Integrated Framework. NYCHA indicated that it used a hybrid of GAO and COSO frameworks in its internal control system. According to GAO[17] and COSO,[18] assessing the risk of fraud is one of many principles for establishing an effective internal control system. In addition, due to the importance of this principle, both organizations have published their own fraud risk management guides with the intention to support organizations in complying with this principle. GAO and COSO make it clear that for a system of internal control to be effective, each of the principles must be present, functioning, and operating together in an integrated manner. If a principle or component is not effective or the components are not operating together in an integrated manner, an internal control system cannot be effective. Although 2 CFR part 200 does not strictly require it, adopting these principles is a best practice that every non-Federal entity should be aware of and consider implementing. Any reasonable taxpayer would expect organizations with the size, complexity, and budget of NYCHA to have an internal control system in compliance with the industry's best practices. Since HUD's regulations and requirements do not require PHAs to establish an effective fraud risk management framework in accordance with GAO or COSO, HUD has not prioritized issuing formal guidance to PHAs detailing the best fraud risk management practices.

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[16] Regulations at 2 CFR 200.303(a) state that a non-Federal entity must establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should comply with guidance in Standards for Internal Control in the Federal Government, issued by the Comptroller General of the United States, or the Internal Control Integrated Framework, issued by COSO.

[17] On September 10, 2014, GAO updated the Standards for Internal Control in the Federal Government, which sets the standards for an effective internal control system for Federal agencies and provides the overall framework for designing, implementing, and operating an effective internal control system.

[18] In May 2013, COSO published the Internal Control – Integrated Framework to enable organizations to effectively and efficiently develop and maintain systems of internal control.

In prior audits,[19] we found that HUD relies heavily on its PHAs to detect and prevent fraud, waste, and abuse. Since HUD has not issued formal guidance to PHAs regarding its expectation of PHAs in assisting HUD with its responsibility to implement fraud risk management activities over HUD programs, it is likely that many PHAs have not implemented formal fraud risk management programs. As a result, HUD is missing a critical control using leading practices that could detect and prevent fraud and minimize fraud risk at the PHA level in Office of Public and Indian Housing programs that spend approximately $38.5 billion annually on voucher and public housing programs, representing over 50 percent of HUD's budget. Having an insufficient fraud risk management framework increases the risk that HUD's Federal funds may be more susceptible to fraud, making it more likely that fraud will go undetected and that HUD and NYCHA will be unable to understand program-specific fraud risks and design corresponding controls to prevent them.

Conclusion

Although NYCHA established several antifraud activities and controls, it should do more to improve its antifraud efforts and mature its fraud risk management practices beyond the "initial" maturity level. Further, due to its current maturity level, NYCHA is missing opportunities to reduce the risk of losses to fraud by implementing controls and additional antifraud activities beyond program requirements and aligned with the best practices. Further, since HUD has not issued formal guidance to PHAs detailing the best fraud risk management practices and clearly indicating its expectation of PHAs in assisting HUD with its responsibility to implement fraud risk management activities over HUD programs, other PHAs may also be missing opportunities to reduce the risk of losses due to fraud.

Until NYCHA matures its fraud risk management, HUD funding will continue to be at a greater risk of fraud. This risk of fraud will remain until NYCHA creates a framework that can regularly detect and prevent fraud, as well as identify, assess, and take corrective action on fraud risks. However, we are encouraged that NYCHA recognizes the need to implement a more formalized process and believe that it is positioned to keep progressing in its fraud risk management maturity.

Recommendations

We recommend that the Director of the Office of Public Housing, New York City Field Office, instruct NYCHA to

> 1A. Develop a strategy to comprehensively assess and respond to fraud risks across NYCHA. The strategy should identify who within NYCHA is responsible for designing and overseeing activities to prevent and detect fraud. The strategy should also include how NYCHA will (1) assess fraud risks across NYCHA methodically and periodically, (2) create response plans for fraud risks that are identified, and (3) monitor and evaluate the effectiveness of fraud risk management activities. The strategy should also designate fraud risk responsibilities across NYCHA.

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[19] HUD Office of Inspector General (OIG) Audit report 2023-FO-0001, Improvements Are Needed in HUD's Fraud Risk Management Program, issued October 26, 2022

1B. Based on the strategy, (1) complete an assessment of fraud risks across NYCHA, (2) create response plans for fraud risks that are identified, and (3) develop procedures to monitor and evaluate the effectiveness of fraud risk management activities.

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

1C. 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. The strategy should include working with extra-large PHAs to implement appropriate fraud mitigation activities.

1D. Work with HUD's Chief Risk Officer to 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. This notice should clearly indicate that PHAs should implement fraud risk management, which includes (1) completing an assessment of fraud risks, (2) creating response plans for fraud risks that are identified, and (3) developing procedures to monitor and evaluate the effectiveness of fraud risk management activities.

Scope and Methodology

We conducted our audit work from February through July 2024 in San Juan, PR, Greensboro, NC, Newark, NJ, and Washington, DC. The audit covered the period January 1, 2023, through January 31, 2024. All interviews and discussions were conducted offsite. Our audit focused on NYCHA's administration of HUD funding.

To gain an understanding of the fraud risk management environment at NYCHA and adequately conduct our assessment, we performed the following:

- Reviewed pertinent fraud risk guidance and criteria, including GAO's Standards for Internal Control in the Federal Government, CFOC's and the U.S. Department of the Treasury, BFS's the Antifraud Playbook, GAO's Framework for Managing Fraud Risks in Federal Programs, ACFE's Occupational Fraud 2024: A Report to the Nations, and HUD rules and regulations.

- Interviewed multiple NYCHA officials, including the chief executive officer; special advisor to the chief executive officer; executive vice president and chief financial officer; executive vice president of leased housing; executive vice president and chief information officer; executive vice president for legal affairs and general counsel; executive vice president of strategy and innovation; chief operations officer; chief compliance officer; chief capital and asset management officer; chief procurement officer; vice president of procurement ethics and vendor responsibility; vice president, environmental, health, and safety officer; cybersecurity and risk management chief information security officer; vice president and controller; director of risk management; vice president of quality assurance; and external audit unit assistant director.

- Reviewed NYCHA's policies and procedures, as well as other relevant documentation.

- Used the Antifraud Program Maturity Model contained in the Antifraud Playbook to determine the maturity level of NYCHA's fraud risk management practices. We followed GAO's A Framework for Managing Fraud Risks in Federal Programs and the CFOC's Antifraud Playbook guidance to perform our assessment and identify areas for improvement.

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.

Appendixes

Appendix A – Auditee Comments and OIG's Evaluation

Auditee Comments

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LISA BOVA-HIATT
CHIEF EXECUTIVE OFFICER

February 24, 2025

BY ELECTRONIC MAIL
Kilah S. White, Assistant Inspector General for Audit, Office of Inspector General
US Department of Housing and Urban Development
Office of Audit | Office of Inspector General
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Dear Ms. White:

This letter is in response to the United States Department of Housing and Urban Development ("HUD") Office of the Inspector General's ("OIG") January 14, 2025 email, which provided the Draft Audit Report entitled "The New York City Housing Authority Should Enhance Its Fraud Risk Management Practices" ("Draft Report") and the subsequent Exit Conference held on January 28, 2025. The New York City Housing Authority ("NYCHA" or "the Authority") is committed to providing safe, secure, and affordable housing to our residents, while maintaining integrity of the programs it administers and appreciates the OIG's efforts and recommendations to develop a strategy to reduce fraud risk exposure and for HUD to work with large Public Housing Agencies ("PHAs") to implement fraud mitigation activities.

As indicated in the Draft Report and discussed at the Exit Conference, NYCHA has established several antifraud controls. Additionally, NYCHA, as also noted in the Draft Report, is actively working to expand these controls and establish a fully mature and comprehensive fraud risk management program. These actions demonstrate NYCHA's support of the HUD OIG audit recommendation to develop a strategy to comprehensively assess risks and improve our maturity level in the fraud risk management practices area.

Auditee Comments

NYCHA appreciates the opportunity to provide comments to the Draft Audit Report, as noted below.

While NYCHA acknowledges the assessment for overall fraud maturity rating of "initial", we disagree with the assessed fraud risk maturity level rating of "ad hoc" in Phase 2 and Phase 4. As noted throughout the audit and cited in the Draft Report, NYCHA not only has documented antifraud-related controls and processes in place but also has documented antifraud awareness. In addition, several of those antifraud processes are monitored for effectiveness.

It is also important to note that NYCHA has been committed to a culture of preventing fraud, waste and abuse, which is reinforced through various trainings and communications to employees and vendors.

These antifraud efforts will continue to be reinforced through the development of a strategy to comprehensively address risks, including fraud risks. NYCHA is currently working with a consultant (RSM US LLP) to improve NYCHA's maturity level in the fraud risk management practices area.

Draft Audit Report - Phase 1 – create a culture maturity level: NYCHA's leadership is committed to strengthening antifraud efforts, but additional actions can be taken.

Draft Audit Report - NYCHA's Progress Toward a More Mature Antifraud Program (Page 9):
NYCHA has also developed and implemented certain antifraud controls and activities that promoted fraud awareness.

NYCHA's Comments:
In addition to examples cited in the Draft Report, NYCHA further notes that important financial controls also exist to identify and prevent fraud related to the financial statements and processes. NYCHA Finance has initiated a limited scope self-assessment process to review controls and remediate deficiencies within accounting and treasury, with plans to expand to accounts payable. NYCHA intends to make the self-assessment an annual program.

Draft Audit Report - NYCHA's Progress Toward a More Mature Antifraud Program (Page 9):
NYCHA officials also mentioned that they have issued newsletters to internal employees and vendors, featuring antifraud resources, and the Quality Assurance Division recently started a quarterly bulletin highlighting internal investigations, such as instances in which the division observed NYCHA employees charging time while not working.

NYCHA's Comments:
NYCHA would like to clarify this statement, as the Quality Assurance Division ("QA"), a subunit of the Quality and Cost Control Department ("QCC"), drafted but did not issue the referenced quarterly newsletter highlighting instances when employees were not performing work during work hours. QCC began publishing a quarterly newsletter highlighting issues focusing on fraud, waste and abuse prevention at the end of January 2025, and the next quarterly newsletter is scheduled to be issued for March/April of 2025.

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Auditee Comments

Draft Audit Report - Phase 2 – identify and assess maturity level: NYCHA has not formally assessed fraud risks that could negatively affect its program effectiveness.

Draft Audit Report (Page 10):
The Antifraud Playbook encourages agencies to identify fraud risks and develop a path forward for executing, repeating, and expanding a fraud risk assessment that is unique and customizable for the agency. Further, managers who effectively assess fraud risks attempt to fully consider the specific fraud risks the agency faces, analyze the potential likelihood and impact of fraud schemes, and then document prioritized fraud risks. Our assessment of NYCHA's maturity within this phase identified its status as "ad hoc" because NYCHA has not comprehensively identified and assessed fraud risks.

NYCHA's Comments:
NYCHA does not agree with the assessed fraud risk maturity level rating of "ad hoc" in Phase 2. According to the Antifraud Playbook maturity model level, an organization should be assessed as "ad hoc" when "fraud risk management processes are disorganized, even chaotic, and antifraud efforts are undocumented and in a state of dynamic change, tending to be driven in an ad hoc, uncontrolled, and reactive manner."

As discussed throughout the audit and at the Exit Conference and acknowledged in the Draft Report, NYCHA is in the process of a comprehensive enterprise-wide risk assessment, which includes a fraud risk component. Further, NYCHA has existing, documented controls within various departments to detect and prevent fraud, waste, and abuse. These antifraud efforts were thoughtfully implemented and not the result of ad hoc, uncontrolled reactions by the Authority.

Specifically, as indicated on page 9 in the Draft Report, NYCHA has also developed and implemented certain antifraud controls and activities that promote fraud awareness.

Examples of NYCHA's fraud risk management practices and actions for preventing, detecting, and responding to fraud include:

1. Antifraud Controls
   - Finance Department
      - Development of internal controls to protect against fraud related to the financial statements and processes have been enhanced. In addition, Finance has initiated a limited scope self-assessment process to review controls and remediate deficiencies. NYCHA intends to expand this program within the next two years.
   - Procurement Department
      - Proactive self-assessment of the Authority's procurement processes which, in collaboration with a consultant, identified and documented both current and future states, and charted a path forward for a procurement transformation.
      - Creation of a standalone department, Procurement Ethics & Vendor Responsibility, to underscore the critical role of procurement ethics and internal controls in preventing fraud, waste, and abuse in contracting.
      - Creation of NYCHA's first Procurement Ethics Policy and delivery of training on ethics, conflicts of interest, and anti-corruption to development staff who engage in micro purchases.

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Auditee Comments

- Compliance Department
  - Creation of a system to receive complaints, including complaints related to fraud allegations. These complaints are reviewed by Compliance and referred to the NYC Department of Investigations ("DOI") and/or to the applicable NYCHA departments, as appropriate.
  - Creation and internal dissemination of related Compliance Advisory Alerts, including a Compliance Advisory Alert pertaining to gratuities and bribes, criminal liabilities, and Executive Order 16 of 1978 which requires the reporting of allegations of bribery and gratuities to the DOI.
- IT Department
  - Implementation of strong authentication and access management form the first line of defense against fraudulent activities. By implementing multi-factor authentication, NYCHA ensures that users must provide multiple pieces of evidence to verify their identity. Regular access reviews help identify and remove unnecessary privileges.
  - Assurance that system and network security create multiple layers of protection around sensitive data and systems. Network firewalls prevent unauthorized movement between different parts of the network. Intrusion detection systems constantly watch for suspicious activities. Regular security patching closes vulnerabilities before they can be exploited. And data encryption ensures that even if data is intercepted, it remains unreadable to unauthorized parties.
  - Monitoring and logging to provide visibility into all system activities. Centralized log management collects evidence from across NYCHA, while real-time alerts notify security teams of potential threats immediately.
  - Training staff annually to recognize and respond to cybersecurity threats. Monthly phishing simulations provide practical experience in identifying deceptive attacks. A built-in reporting button allows users to quickly report suspicious activities.
- Leased Housing Department
  - Performance of annual reviews of household income and characteristics includes, among other reviews, thorough investigation and required corrective action to address all unreported or underreported income instances.
  - Completion of regular reviews of tasks associated with HUD's Section Eight Management Assessment Program ("SEMAP") to identify and correct error patterns.
  - Collaboration with the NYCHA Inspector General's Office when program violations are reported.
- Quality Assurance Division
  - Regular presence at the developments to make sure the repair process is efficient and to industry standard. In addition, QCC is tasked with conducting all non-criminal internal investigations.
- Further, NYCHA maintains a collaborative relationship with the NYCHA Inspector General to address and identify fraud, waste and abuse.

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Auditee Comments

2. Antifraud Awareness
   - Human Resources Department
     - The HR manual contains policies and rules to avoid conflicts of interest and other unethical behavior.
   - Procurement Department
     - Procurement Ethics Policy that outlines the applicable laws, statutes, regulations, and overall Authority policies and procedures that employees, consultants, and temporary staff are required to follow.
     - The NYCHA OIG's Contractors and Vendors Anti-Corruption Guide is posted on NYCHA's public-facing website to inform contractors and vendors of the extent of their ethical obligations and provide a guide for recognizing various forms of corruption and how to respond to them.
     - Created with the assistance of the DOI, NYCHA developed a training program which micro-purchase vendors must attend to be placed on a prequalified list. The program includes information about NYCHA's micro-purchase process, vendor responsibilities and liabilities, and bribes and gratuities. Upon completion of the training, the micro-purchase vendor must submit a signed acknowledgement form to NYCHA.
   - Compliance Department
     - As noted above, the Compliance Department creates and internally circulates Compliance Advisory Alerts, some of which address fraud-related topics, including a Compliance Advisory Alert pertaining to gratuities and bribes, criminal liabilities, and Executive Order 16 of 1978 which requires the reporting of allegations of bribery and gratuities to DOI.
   - Quality Assurance Division
     - As noted above, QCC has started publishing a quarterly newsletter highlighting issues focusing on fraud, waste and abuse prevention.
   - NYCHA Employee Mandatory Training
     - NYCHA employees are required to complete various mandatory trainings, including biannual Conflicts of Interest Training. This training, created by The New York City Conflicts of Interest Board ("COIB"), covers the restrictions placed upon NYCHA employees by Conflicts of Interest Law, including restrictions on doing business with the City of New York and NYCHA, moonlighting, and prohibitions on using their NYCHA position for personal gain.
   - NYCHA Executive Leadership
     - As advised during the audit and noted in the Draft Report, while there is currently no formal fraud-specific forum to discuss fraud-specific matters at NYCHA, members of the Executive and Senior Team have regular meetings with departments to discuss fraud-related matters.

Further, as NYCHA advised the HUD OIG Audit Team on September 25, 2024 via email, the Authority has contracted with RSM US LLP ("RSM") to perform internal audit services. RSM has commenced their work of familiarizing themselves with the organization; the Department of Internal Audit and Assessment ("IAA") and RSM have been conducting weekly check-in meetings; IAA and RSM have met with the Chief Executive Officer, the Executive Team, various Senior Team members, and the Audit and Finance Committee (see Appendix A); and will be issuing the

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Auditee Comments

risk assessment questionnaire in the coming weeks, with the goal of completing their assessment in the spring of 2025.

Accordingly, NYCHA believes that NYCHA's Phase 2 fraud risk maturity rating should be "initial", consistent with the HUD OIG Audit Team's assessment that NYCHA's overall fraud risk management maturity rating is in the "initial" state, as mentioned on page 7 of the Draft Report.

Draft Audit Report - NYCHA's Progress Toward a More Mature Antifraud Program (Page 11)
NYCHA reevaluated its internal audit department and decided to outsource it. NYCHA was in the final stages of the contracting process to outsource the internal audit function.

NYCHA's Comments:
NYCHA would like to clarify this statement in the Draft Report, as only the internal audit function within the IAA was outsourced to RSM, as described above. The IAA will continue to manage the internal audit function being performed by RSM as well as the external audit function. As NYCHA advised the HUD OIG Audit Team on September 25, 2024 via email and as noted above, (1) the contract was executed and subsequently approved by the NYCHA Board at the September 25, 2024 Board Meeting and (2) a kickoff meeting with RSM was held. Since then, IAA and RSM have been conducting weekly check-in meetings, have met with the Chief Executive Officer, the Executive Team, various Senior Team members, and the Audit and Finance Committee, and will be issuing the risk assessment questionnaire in the coming weeks, with the goal of completing their assessment in the spring of 2025.

Draft Audit Report - Phase 3 – prevent and detect maturity level: NYCHA has some antifraud activities in place to prevent and detect fraud, but additional action is needed to ensure its controls effectively target NYCHA's most significant risks.

Draft Audit Report - NYCHA's Progress Toward a More Mature Antifraud Program (Page 13):
The Finance Department developed a response plan to address control gaps found during a contractor assessment of controls and procedures. As part of the plan, it made several internal controls changes to close the gaps in the areas of accounts receivable, bank reconciliations, treasury, and accounts payable areas. The Department also informed us that it was moving toward establishing an internal process to conduct those assessments in a recurring manner.

NYCHA's Comments:
NYCHA would like to clarify this statement in the Draft Report. As noted above, the Finance Department proactively contracted an outside vendor to complete an assessment of financial controls and procedures. In response, the Finance Department developed a response plan to address the control gaps identified and made several internal controls changes to close the gaps in the areas of accounts receivable, bank reconciliations, treasury, and accounts payable. The Finance Department is also moving toward establishing an internal process to conduct those assessments in a recurring manner.

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Auditee Comments

Draft Audit Report - NYCHA's Progress Toward a More Mature Antifraud Program (Page 14):
The Compliance Department's Inquiry Review and Assessment Team ("CIRA") manages hotline complaints through a portal, which oversees every complaint that comes into NYCHA. The unit reviews the complaints and assigns them to the correct unit. A separate NYCHA team processes complaints from other City and State agencies. This unit processes the resolution of violations, complaints, and reports of potential fraud.

NYCHA's Comments:
NYCHA would like to clarify that many complaints are received and managed by CIRA; however, there are other complaints, inquiries, and requests which are appropriately received by various departments across the Authority. Compliance's CIRA unit manages a complaint portal created to receive complaints related to Compliance, Environmental Health & Safety, and Quality Assurance. The CIRA team logs and triages complaints received through this portal. Compliance-related complaints are addressed by CIRA, and other complaints are referred to the applicable NYCHA departments and business units.

Draft Audit Report - NYCHA's Progress Toward a More Mature Antifraud Program (Page 14):
The Procurement Department is working on using data sharing to prequalify and exclude vendors for purchases including micro purchases. In 2023, it added procedures related to vendor responsibility and disqualification that helped NYCHA in vetting contractors and protecting the integrity of NYCHA's procurement practices. NYCHA would contract with only those vendors determined to be responsible. Causes for disqualification includes conviction of fraud and other criminal offenses or conduct indicating a lack of business honesty or integrity.

NYCHA's Comments:
NYCHA would like to clarify the above statement by noting the following as discrete topics:

- The Procurement Department is utilizing data sharing to prequalify and exclude vendors for purchases including micro purchases.
- In 2022 and 2023, the Procurement Department added procedures related to vendor responsibility and disqualification that helped NYCHA in vetting contractors and protecting the integrity of NYCHA's procurement practices, respectively. These procedures ensure NYCHA contracts with only those vendors determined to be responsible. Causes for disqualification include conviction of fraud and other criminal offenses, or conduct indicating a lack of business honesty or integrity.
- The Procurement Department requires vendors at the senior management level to complete ethics training before being prequalified for micro-purchases. This requirement ensures organizational awareness of ethical practices at the highest level of vendor leadership.

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Auditee Comments

Auditee Comments

Draft Audit Report Recommendations

Please find NYCHA's responses below, which provide our corrective actions to address the two (2) recommendations to be presented to NYCHA through the Office of Public Housing, New York City Field Office.

Recommendation No. 1A

We recommend that the Director of the Office of Public Housing, New York City Field Office, to instruct NYCHA to develop a strategy to comprehensively assess and respond to fraud risks across NYCHA. The strategy should identify who within NYCHA is responsible for designing and overseeing activities to prevent and detect fraud. The strategy should also include how NYCHA will (1) assess fraud risks across NYCHA methodically and periodically, (2) create response plans for fraud risks that are identified, and (3) monitor and evaluate the effectiveness of fraud risk management activities. The strategy should also designate fraud risk responsibilities across NYCHA.

NYCHA Response:

NYCHA supports and agrees with this recommendation. As discussed previously, NYCHA is in the process of implementing this audit recommendation by contracting with RSM to develop a strategy to comprehensively assess risks, including fraud risks, across NYCHA and to improve our maturity level in the fraud risk management practices area.

Based on the risk assessment process, with an emphasis on identification and evaluation of key fraud risks, RSM will prepare the Internal Audit Plan, including a fraud risk management component, which will be presented to NYCHA's Audit and Finance Committee in the spring of 2025 for recommendation of approval by the NYCHA Board.

In addition to the above, where feasible and as applicable, NYCHA will incorporate any additional HUD guidance and best practices into program specific policies and procedures.

Recommendation No. 1B

We recommend that the Director of the Office of Public Housing, New York City Field Office, to instruct NYCHA to develop a strategy to comprehensively assess and respond to fraud risks across NYCHA. Based on the strategy, (1) complete an assessment of fraud risks across NYCHA, (2) create response plans for fraud risks that are identified, and (3) develop procedures to monitor and evaluate the effectiveness of fraud risk management activities.

NYCHA Response:

NYCHA supports and agrees with this recommendation. NYCHA management will work with RSM to create response plans for fraud risks that are identified through the individual audits. Additional program-specific procedures and corrective action plans will be developed to respond to the specific risks identified based on the audits.

In closing, as discussed during the Exit Conference, we would like to reiterate our request for clarification in the final report that once NYCHA implements the recommendations respective to NYCHA, the audit does not reflect as remaining open with respect to NYCHA, should HUD not have yet implemented the recommendations respective to HUD.

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Auditee Comments

We look forward to our continued collaboration with HUD, the City of New York, and residents as well as employees to ensure progress toward safe, clean, and connected communities for now and for the future.

If you have any questions, please call Vilma Huertas, Special Advisor to the Chief Executive Officer, at 212-306-8887, or email Vilma.Huertas@nycha.nyc.gov.

Sincerely,

Lisa Bova-Hiatt
Chief Executive Officer

Cc: Luigi D'Ancona, Director, HUD Office of Public Housing, New York City Field Office
Jeffrey P. Evans, HUD Prevention, Recovery, Transformation, Office of Field Operations - NYCHA Monitorship
Brittany Wing, Audit Director, Financial Audits Division, HUD Office of Inspector General
Kendra A. Johnson, Assistant Audit Director, Financial Audits Division, HUD Office of Inspector General
Emanuel Diaz Bravo, Senior Auditor, HUD Office of Inspector General
Constance H. Wojtek, Senior Auditor, HUD Office of Inspector General
Diego Ramos, Senior Auditor, HUD Office of Inspector General
Eva Trimble, Chief Operating Officer
Andrew Kaplan, Chief of Staff
Vilma Huertas, Special Advisor to the Chief Executive Officer
David Rohde, Executive Vice President for Legal Affairs and General Counsel
Patti Bayross, Executive Vice President & Chief Information Officer
Barbara Brancaccio, Executive Vice President & Chief Communications Officer
Brian Honan, Executive Vice President of Intergovernmental Affairs
Annika Lescott-Martinez, Executive Vice President & Chief Financial Officer
Sergio Paneque, Chief Procurement Officer
Cassiah Ward, Chief Compliance Officer
Anil Agrawal, Assistant Director of External Audits, Internal Audit and Assessment
File

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Auditee Comments

HUD OIG Audit – The New York City Housing Authority Should Enhance Its Fraud Risk Management Practices

NYCHA Response

Since award, in addition to NYCHA Internal Audit/RSM weekly check-in meetings (since October 2024), RSM and the Internal Audit Team have met with the following:

- Chief Executive Officer

- Executive Team
  - Chief Asset and Capital Management Officer
  - Chief Compliance Officer
  - Chief Operating Officer
  - Chief Procurement Officer
  - EVP for Administration
  - EVP and Chief Communications Officer
  - EVP and Chief Financial Officer
  - EVP and Chief Information Officer
  - EVP for Intergovernmental Affairs
  - EVP for Leased Housing
  - EVP for Legal Affairs and General Counsel
  - EVP for Property Management Operations
  - EVP for Real Estate Development
  - EVP for Resident Services, Partnerships and Initiatives
  - EVP for Strategy and Innovation
  - EVP for Support Services
  - Special Advisor to the Chief Executive Officer

- Senior Team
  - Chief Information Security Officer and Cybersecurity and Risk Management
  - SVP for Healthy Homes
  - SVP for Performance Management and Analytics
  - SVP for PHO and Tenancy Administration
  - SVP for Quality Assurance, Safety and Technical Programs
  - VP for Environmental Health and Safety
  - VP and Controller
  - VP for Leased Housing
  - VP for Legal Affairs and Managing Attorney
  - VP for Performance Tracking and Analytics
  - VP for Quality and Cost Control
  - VP for Resident Services
  - Senior Director for Leased Housing Quality Assurance and Performance Management

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- Senior Director for Resident Initiatives
- Special Counsel for EVP for Strategy and Innovation
- Director for Strategic Implementation
- Director for Strategic Planning

- Audit and Finance Committee members

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OIG Evaluation of Auditee Comments

We provided the draft report to NYCHA and HUD for comment on January 14, 2025. NYCHA provided comments to the draft report on February 24, 2025. We attempted to obtain comments from HUD on multiple occasions, however HUD did not provide formal comments at the time of our report. Our evaluation below is only related to the comments provided by NYCHA.

NYCHA agreed with our overall assessment of its fraud risk maturity as "initial" and with recommendations 1A and 1B. However, it disagreed with our rating of "ad hoc" in Phase 2 and Phase 4. NYCHA does not consider these two phases to be at an "ad hoc" level because it believes it has sufficiently documented its antifraud-related controls, processes, awareness efforts, and it is monitoring several of those antifraud processes for effectiveness. NYCHA added that it has been committed to a culture of preventing fraud, waste and abuse, and that those antifraud efforts will continue to be reinforced through the development of a strategy to comprehensively address risks, including fraud risks. NYCHA indicated it is currently working with a contractor to improve NYCHA's maturity level in the fraud risk management practices area. NYCHA also requested us to clarify in the final report that once NYCHA implements its recommendations (1A and 1B), the audit does not reflect as remaining open with respect to NYCHA, if HUD has not implemented its recommendations.

We recognize that NYCHA's leadership shares an antifraud tone and is committed to strengthening its fraud risk management activities. We also acknowledge that NYCHA is moving in the right direction by working with a consultant to improve its fraud risk management practices. However, at the time of our audit, NYCHA did not meet the phase specific characteristics to be considered "initial" in Phases 2 and 4. For Phase 2, which is Identify and Assess, the most critical element in this stage is having documented and repeatable fraud risk assessment processes in place. While the Finance department conducted a risk assessment that considered fraud, it was not an established ongoing process, and it was the only department that had a documented assessment. Additionally, while there were some other informal processes in place, they were not sufficiently designed and documented to allow them to be replicated. Lastly, while NYCHA has started a process to perform a comprehensive risk assessment that includes fraud risk assessment, a formal fraud risk assessment has not been completed. As for Phase 4, which is Insight into Action, this stage is about evaluating the outcomes of fraud risk management activities and efforts implemented in the first three phases. While we reported on many activities that NYCHA has in place or plans to put in place in the first three phases, we did not find evidence that NYCHA has processes in place to periodically monitor the effectiveness of these activities.

Concerning NYCHA's comment regarding the recommendations, OIG will not hold NYCHA accountable for this report once its recommendations are closed. The report specifically states which entity is responsible for each individual recommendation. Further, the statuses of our recommendations are tracked separately and are displayed as such on our public website.

We look forward to working with NYCHA and HUD during the audit resolution process to ensure appropriate corrective action plans are implemented that will fully address the recommendations in this report. We believe the implementation of these recommendations will improve fraud risk management activities at NYCHA and across other PHAs, as well as improve HUD's fraud risk management posture, since it relies so heavily on PHAs to administer its programs.