



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

Potential Fraud Risks and Schemes for HUD's Disaster Recovery Funds

Audit Report Number: 2026-FW-0002

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Highlights

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What We Audited and Why

Beginning in 2021, the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General (OIG) conducted several audits to assess HUD's anti-fraud efforts and to develop inventories of fraud risks for several of its programs¹. Our previous work found that HUD's fraud risk management program was in its early stages of development and we recommended that HUD perform program-specific fraud risk assessments and incorporate these assessments into an agency-wide plan to further advance its program². To continue assisting HUD in improving its anti-fraud efforts, we conducted this work to identify potential fraud risks and schemes that could negatively impact HUD's Office of Community Planning and Development disaster recovery funding.

What We Found

CPD had made progress in its efforts to identify fraud risks for its disaster recovery program. Specifically, CPD identified several fraud risks at the disaster recovery program level and documented them in a fraud risk inventory. To further assist CPD with its fraud risk efforts, we developed our own fraud risk inventory that includes additional fraud risks. To develop our inventory, we first identified seven fraud risk factors affecting disaster recovery funding that increase the chance of fraud by heightening the incentives, opportunities, and likelihood for rationalization by individuals inclined to commit fraud. We then used those fraud risk factors, along with the results of brainstorming sessions, interviews, and reviews of audit reports, investigations, press releases from HUD's Office of Inspector General (HUD OIG) and other Federal agencies,³ to develop the inventory containing 57 potential fraud risks, 20 of which CPD had previously identified in its fraud risk inventory. Fraudulent misappropriation of disaster recovery funding undermines program integrity, compromises taxpayer dollars, and hinders disaster recovery efforts, ultimately harming the affected communities.

What We Recommend

We recommend that HUD's Office of Community Planning and Development (CPD) improve its anti-fraud efforts by using the fraud risk inventory our office developed and its Office of the Chief Risk Officer's risk catalog. We also recommend involving key stakeholders in the disaster recovery program's risk identification process and communicating the identified fraud risks to relevant stakeholders, such as grantees and subrecipients, to enhance fraud prevention, detection, and response efforts within HUD and

¹ HUD Office of Inspector General (OIG) reports [2022-FO-0801](#), "Fraud Risk Inventory for the CDBG and ESG CARES Act Funds", October 2021, [2022-FO-0007](#), "Fraud Risk Inventory for the Tenant- and Project Based Rental Assistance, HOME, and Operating Fund Programs' CARES and ARP Act Funds", September 2022, and [2023-FO-0001](#), "Improvements are Needed in HUD's Fraud Risk Management Program", October 2022.

² See [2023-FO-0001](#).

³ We reviewed materials from the U.S. Department of Justice, the Federal Emergency Management Agency, the U.S. Small Business Administration, and the U.S. Government Accountability Office.

grantees' disaster recovery programs. We further recommend that CPD use its fraud risk inventory to help identify data needs and potential system enhancements to improve its ability to monitor and respond to fraud risks in the Disaster Recovery program.

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Background and Objectives

The U.S. Department of Housing and Urban Development's (HUD) Community Development Block Grant Disaster Recovery (CDBG-DR) funds are authorized under Title I of the Housing and Community Development Act of 1974 as amended. Disaster recovery funds are supplemental funds appropriated by Congress to HUD, which then allocates and awards the funds to grantees impacted by a presidentially declared disaster. These funds are used to provide disaster relief, foster long-term recovery, restore infrastructure, and spur economic revitalization. The disaster recovery program⁴ uses the standard CDBG program rules as a foundational framework, which are then modified by one or more Federal Register notices for each supplemental act. Since 2001, HUD has provided more than \$109 billion in disaster recovery and mitigation⁵ funds to 107 grantees in response to various disasters across the Nation.

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

Fraud in Federal Programs

Fraud poses a significant risk to the integrity of federal programs and erodes public trust in government. For federal disaster recovery programs, fraud results in communities and individuals not receiving needed assistance to recover from and mitigate future disasters.

The U.S. Government Accountability Office's (GAO) "Standards for Internal Control in the Federal Government,"⁶ commonly known as the Green Book, states that when identifying, analyzing, and responding to fraud risks, management should consider the potential for fraud. Specifically, management should consider the types of fraud that can occur within the entity to provide a basis for identifying fraud risks. The Green Book identifies three types of fraud: (1) fraudulent financial reporting, (2) misappropriation of assets, and (3) corruption.

Further, according to the Green Book, managers should consider fraud risk factors when assessing fraud risks. Fraud risk factors do not necessarily indicate that fraud exists but are often present when fraud occurs. As seen in the following figure, fraud risk factors include when (1) individuals have an incentive or are under pressure, which provides a motive to commit fraud; (2) circumstances exist, such as the absence of controls, ineffective controls, or the ability of management to override controls, which provide

⁴ Although Congress has not permanently authorized CDBG-DR as a program through legislation, we refer to CDBG-DR as HUD's disaster recovery program throughout this report.

⁵ Community Development Block Grant Mitigation (CDBG-MIT) funding was provided through specific allocations for certain disasters in 2015, 2016, 2017, and 2018. More recent allocations allow for mitigation activities through a CDBG-DR Mitigation Set-Aside requirement.

⁶ On September 10, 2014, GAO updated the "Standards for Internal Control in the Federal Government," which sets the standards 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.

an opportunity to commit fraud; and (3) individuals involved who are able to rationalize committing fraud.

Figure 1: The fraud triangle

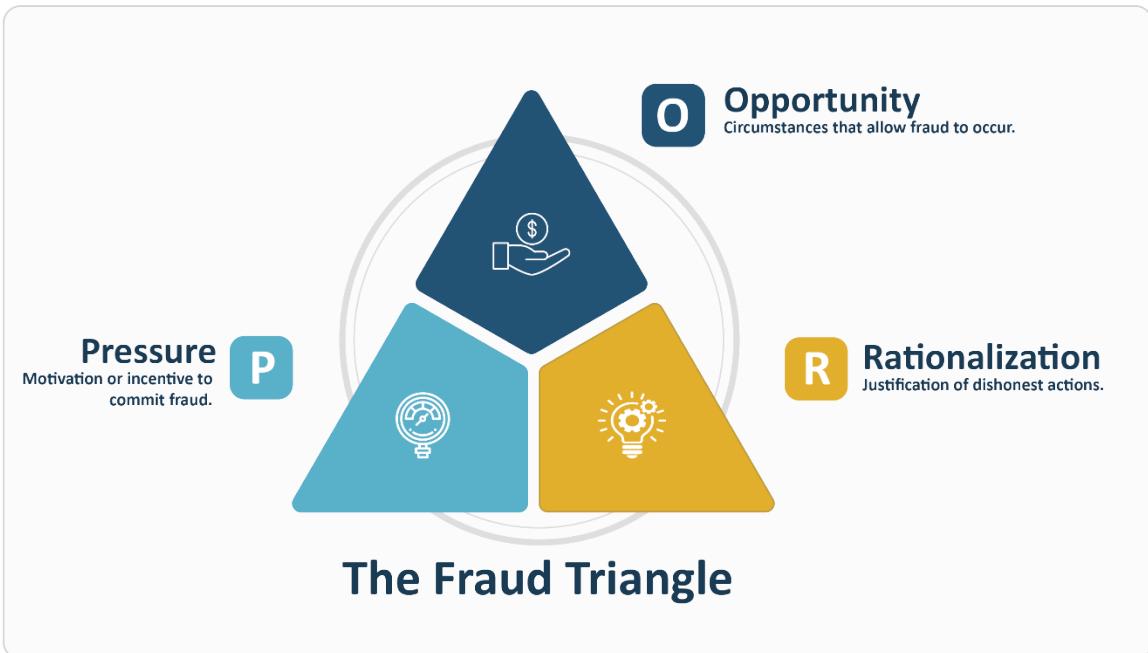


Figure note - This depiction of the fraud triangle was created by HUD OIG using Adobe Illustrator and is based on the fraud risk factor definitions in GAO's Standards for Internal Controls in the Federal Government (commonly known as the Green Book).

While fraud risk may be greatest when all three risk factors are present, one or more of these factors may indicate a fraud risk. When fraud risks can be identified and mitigated, fraud may be less likely to occur. Although the occurrence of fraud confirms there is a fraud risk, a fraud risk can exist even if actual fraud has not yet occurred or been identified.

To help managers preserve integrity in government agencies and programs, GAO published a fraud risk management framework⁷ in 2015 identifying the leading practices for managing fraud risks. Fraud risk management helps ensure program integrity by continuously and strategically mitigating both the likelihood and effects of fraud. Effectively managing fraud risk helps to ensure that programs fulfill their intended purpose, funds are spent effectively, and assets are safeguarded.

⁷ U.S. Government Accountability Office (GAO) report [GAO-15-593SP](#), A Framework for Managing Fraud Risks in Federal Programs issued July 2015.

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),⁸ requires the Office of Management and Budget (OMB) to maintain guidelines for agencies to establish financial and administrative controls to identify and assess fraud risks and incorporate leading practices from GAO's Fraud Risk Framework. 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, the HUD policy implementing OMB A-123 guidance states 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.⁹

In HUD OIG's October 2022 audit, "Improvements are Needed in HUD's Fraud Risk Management Program," HUD OIG recommended that HUD's Chief Financial Officer (CFO), among other things, perform a complete agency-wide fraud risk assessment incorporating fraud risk assessments performed at the program levels.¹⁰ In another audit report published in October 2021, "Fraud Risk Inventory for the CDBG and ESG CARES Act Funds," HUD OIG developed a fraud risk map containing 31 potential fraud schemes not previously identified by HUD for two CPD programs.¹¹ In that report, we recommended that HUD's CPD should consider using HUD OIG's fraud risk inventory to enhance CPD's fraud risk assessments. To date, these recommendations remain open.

Similarly, GAO's May 2021 audit, "HUD Should Take Additional Action to Assess Community Development Block Grant Fraud Risks" identified 42 fraud risks specific to CDBG-DR funding.¹² The GAO recommended that CPD consider the list of fraud risks it identified when comprehensively assessing fraud risks. To date, GAO's recommendation has been partially addressed and remains open.

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

⁸ 31 United States Code § 3357.

⁹ [Departmental Policy on the Implementation of OMB Circular A-123, Management's Responsibility for Enterprise Risk Management \(ERM\) and Internal Control Policy No. 1841](#), effective date October 2022.

¹⁰ HUD Office of Inspector General (OIG) report [2023-FO-0001](#), "Improvements are Needed in HUD's Fraud Risk Management Program," issued October 2022.

¹¹ HUD Office of Inspector General (OIG) report [2022-FO-0801](#), "Fraud Risk Inventory for the CDBG and ESG CARES Act Funds," issued October 2021.

¹² U.S. Government Accountability Office (GAO) report [GAO-21-177](#), "HUD Should take Additional Action to Assess Community Development Block Grant Fraud Risks", issued May 2021.

Results of Audit

Fraud Risks That Could Affect HUD's Disaster Recovery Funding

CPD has made progress in its efforts to identify fraud risks for its disaster recovery program. Specifically, CPD performed the key initial steps of identifying risks at the disaster recovery program level and documented them in a fraud risk inventory. To assist CPD with its fraud risk identification effort, we developed a fraud risk inventory that includes additional disaster recovery-specific fraud risks that CPD could consider. To develop this inventory, we first identified seven fraud risk factors affecting disaster recovery funding that increase the chance of fraud by heightening the incentives, opportunities, and likelihood for rationalization by individuals inclined to commit fraud. We then used those fraud risk factors, along with the results of brainstorming sessions, interviews, and reviews of audit reports, investigations, press releases from HUD's Office of Inspector General (HUD OIG) and other Federal agencies, to develop our inventory of 57 potential fraud risks. When disaster recovery funding is misappropriated through fraud schemes, program integrity is undermined, taxpayer dollars are compromised, and disaster recovery efforts are hindered, ultimately harming the affected communities. Having a thorough understanding of the full spectrum of fraud risks can significantly enhance an entity's ability to prevent fraud, waste, and abuse. This insight can also help entities identify and focus on the highest risks and help to determine data needed to support developing effective data analytics tools to detect and deter fraudulent activity.

CPD Identified Fraud Risks that Could Potentially Affect the Disaster Recovery Program

Following HUD OIG's audit recommendation,¹¹ CPD identified risks at the disaster recovery program level and documented them in a fraud risk inventory. CPD's fraud risk inventory listed more than 30 fraud risks, some specific to disaster recovery and others applicable to all CPD programs. CPD developed this inventory using a template created by HUD's Office of the Chief Risk Officer (CRO), which was meant to be used as a starting point when identifying fraud risks applicable to each program area. The CRO's template included a catalog with over 400 fraud risks, including additional fraud risks that could expand CPD's fraud risk inventory. Given the flexibility in how disaster recovery funding can be used and the decentralized structure in which it is managed, maintaining a comprehensive fraud risk inventory is a critical tool to understand the full range of potential fraud risks that can affect a program. Because fraud schemes evolve over time, it is essential that fraud risk identification and assessment processes are regularly updated and refined to ensure emerging risks are disclosed and effectively addressed.

CPD Developed A Fraud Risk Inventory For The Disaster Recovery Program

CPD identified fraud risks for the disaster recovery program and documented them in a fraud risk inventory. CPD could benefit by periodically updating and refining its inventory to identify and address new fraud schemes that may emerge. CPD could also benefit by continuing to use the CRO's fraud risk catalog to identify additional risks.

Fraud Risks and Schemes Affecting the Disaster Recovery Program

To assist CPD, HUD OIG developed a fraud risk inventory for the disaster recovery program, included in Appendix B of this report, which has additional fraud risks that CPD could consider incorporating in its own fraud risk inventory. The fraud risks identified in the HUD OIG inventory are not meant to be all-inclusive and should not preclude CPD from identifying and considering others. GAO's framework⁷ explains that the OIG and its work may inform the fraud risk assessment process and help managers to identify fraud risks; however, the OIG should not lead or facilitate fraud risk assessments in order to preserve its independence when reviewing a program's activities.¹³

Although our fraud risk inventory may be informative to HUD while conducting a fraud risk assessment, it does not replace HUD's ultimate responsibility to conduct its own assessment.

Fraud Risk Factors Identified By HUD OIG

When identifying fraud risks, GAO's Green Book recommends considering fraud risk factors that could increase the likelihood that fraud could occur. As such, we identified seven fraud risk factors affecting the Disaster Recovery funding. These risk factors increase the chance of fraud by heightening the incentives, opportunities, and likelihood of rationalization by individuals inclined to commit fraud.

- **Large Amount of Funding** – Often, the size of disaster recovery funding far exceeds what jurisdictions receive from the traditional CDBG program, increasing the opportunity for misuse. Further, the funding flows through states, grantees, contractors, and subrecipients, raising the possibility of potential fraud.
- **Administrative Capacity** – Some grantees, especially those with less disaster recovery experience, may lack the knowledge or training needed to properly manage these funds. Grantees may also lack sufficient controls to prevent and detect fraud. In addition, HUD has seen reductions to its workforce¹⁴ which, if not managed effectively, could negatively impact its capacity to oversee and monitor its grantees, potentially increasing fraud risk. However, HUD's strategic realignment and the adoption of other efficiencies, including the use of data analytics, can mitigate or reduce this risk.
- **Changing or Inconsistent Rules for Each Disaster** – Each time Congress appropriates disaster recovery funds, HUD creates new program rules for each grant and may issue waivers for certain requirements. Inconsistent rules between grants may create challenges when administering disaster recovery funds and can make oversight more difficult, increasing the opportunity for fraud to occur or go undetected.¹⁵

¹³ OV2.15 of the U.S. Government Accountability Office (GAO) report [GAO-14-704G](#), "Standards for Internal Control in the Federal Government," states that external auditors and the office of the inspector general (OIG), if applicable, are not considered a part of an entity's internal control system. While management may evaluate and incorporate recommendations by external auditors and the OIG, responsibility for an entity's internal control system resides with management.

¹⁴ <https://www.hud.gov/news/hud-no-25-059>.

¹⁵ To help address this, in early 2025, HUD published its Universal Notice applicable to new disaster grants. The notice describes the processes, procedures, timelines, waivers, and alternative requirements that HUD intends

- **Usage Flexibility** – Because programs are tailored to local needs, grantees design a wide range of activities, such as home repair, rental assistance, business financing, and homebuyer assistance, raising the chances for misuse and making oversight harder for HUD and grantees.
- **Decentralized Program Design** – Because the disaster recovery program is administered by many different state and local entities, with significant discretion over how funds are used, there is a higher chance for inconsistent oversight and fraud vulnerabilities.
- **Disaster Environment** – In every disaster, there is a pressure to get aid to affected communities as fast as possible, which may lead to shortcuts that can lead to fraud. Further, ineligible disaster victims may be desperate and rationalize misrepresenting information in their applications to receive disaster aid.
- **Self-Certification** – Instances in which self-certification is the sole or most significant control for program eligibility increases fraud risks from nefarious actors looking to take advantage of the programs for personal gain.

Fraud Schemes Identified by HUD OIG

Based on the fraud risk factors listed above and the results of our brainstorming sessions, interviews, review of audit reports, investigations, press releases, and other relevant guidance, we identified 57 potential fraud schemes¹⁶ which may be used to misappropriate disaster recovery funding. Of the 57 fraud schemes the OIG identified, CPD had previously identified 20 of them. We classified all the schemes into the following six general fraud activities:



Asset Misappropriation Schemes

Asset misappropriation includes schemes in which an individual or organization steals or misuses HUD funds or property. Specifically, these fraud schemes may include, but are not limited to, the following:

- Check and Payment Tampering - The unauthorized alteration or manipulation of checks or electronic payment information to redirect funds for personal gain.
- Shell Company Abuse - The creation of fictitious entities to misappropriate funds.
- Embezzlement - The misappropriation of cash or property by an individual entrusted with the assets.

to implement with each allocation of disaster recovery funding after a qualifying presidential disaster declaration.

¹⁶ See Appendix B.

- Larceny - The misappropriation of cash or assets with the intent of permanently depriving the rightful owner of its use or possession.
- Side Payments - Charging fees that are not authorized under a program.
- Misuse of funds or assets - Using funds or property acquired with grant funds for unauthorized purposes.



Beneficiary Fraud Schemes

Beneficiary fraud involves using willful misrepresentation to improperly obtain a benefit for a beneficiary or at the beneficiary's expense. Beneficiary fraud may include, but is not limited to, the following:

- Identity Theft - Applying for disaster aid by using another individual's identity or personal information without authorization.
- Duplication of Benefits - When an applicant receives funds from multiple programs for the same activity or need.
- False Damage Claim
 - Unrelated Damage - Claiming for damages not caused by the disaster event.
 - Phantom Property - Claiming for damages to property that does not exist.
 - Inflated Damage or Property Value - Overstating the damages or property value to receive disaster relief funds that exceed the actual loss or a replacement of greater value than the original property.
 - False Damages - Submitting a claim for damages that did not occur.
- False Eligibility Claim
 - Occupancy Misrepresentation - Misrepresenting the occupancy or the intention to reside in a property.
 - Ownership Misrepresentation - Misrepresentation of property or business ownership.
 - Deceased Beneficiary - Receiving or applying for disaster assistance on behalf of a deceased person.
 - Misrepresentation of Income, Assets or Family Composition - Providing false information about income, assets or family circumstances to qualify for or increase the amount of disaster assistance.

- False Landlord - Falsely claiming to be a landlord to receive rental assistance.
- False Tenant - Falsely claiming to be a tenant to receive rental assistance.
- Misrepresentation of Citizenship or Lawful Permanent Residency - Falsely attesting to U.S. citizenship or lawful permanent residency to qualify for disaster assistance programs.
- Inflating Revenue or Payroll Expenses - Inflating business financials such as revenue, employee numbers and payroll expenses to receive a larger amount of disaster benefits.
- Ghost Applicant - Using a fictitious person or entity to apply for assistance.
- Misrepresentation or Omission of Change in Eligibility Status - The intentional omission or misrepresentation of changes that could affect benefit eligibility to continue receiving benefits they are not entitled to.
- Straw Buyer Scheme - When a person is paid to apply for a mortgage on behalf of someone else.
- Unauthorized Subletting - The unauthorized subletting of a rental unit for personal gain.



Procurement Fraud Schemes

Procurement fraud involves dishonest practices in the contracting process that can involve using willful misrepresentation in connection with contracts or manipulation of the bidding process to give an unfair advantage. For example, procurement fraud may include, but is not limited to:

- Bid Rotation - Agreement between competitors to take turns submitting the lowest (winning) bid on a series of contracts.
- Bid Suppression - When one or more competitors agree to refrain from bidding or withdraw an existing bid, to ensure a predetermined bidder wins a contract. In return, the non-bidder may receive compensation or a subcontract.
- Complementary Bidding - Competitors conspire to submit intentionally uncompetitive bids to ensure that the predetermined bidder wins the contract. In exchange, the losing contractors may receive a subcontract or a kickback.
- Contract Commingling (Cross-charging) - Billing multiple contracts for the same task.
- Contract Progress Payment Fraud - Receiving payments based on false progress.
- Cost Mischarging - When a contractor charges for costs that are not allowable, reasonable, or cannot be allocated to the contract.

- Defective Pricing - Providing inaccurate or incomplete pricing data in a cost-type contract proposal to inflate costs.
- Product/Service Substitution (Nonconforming Goods or Services Fraud) - Intentionally delivering substandard or non-compliant goods/services that do not meet contract specifications, while billing as if the contract specifications were met in full.
- Unnecessary Purchase/Service - The purchase of goods or services that are not needed or unrelated to disaster recovery operations.
- Change Order Abuse - When a corrupt contractor, often in collusion with a procurement official, submits an artificially low bid with the intent to win a contract and subsequently increases the costs with unjustified change orders.
- Bid Manipulation - When a procurement employee influences the outcome of the bidding process by altering bids, manipulating evaluation criteria, or the improper disqualification of legitimate bids.
- Bid Tailoring - Drafting bid specifications to give an unfair advantage to a specific contractor. This can also involve the manipulation of cost models to enable inflated pricing and the provision of kickbacks to the procurement official.
- Leaking Bid/Proposal Data - Sharing pre-bid specifications or confidential information from competitive bidders to give an unfair advantage to a favored bidder in the formulation of their proposal.
- Unjustified Sole Source - Improperly selecting a sole source contracting method to exclude competition and direct the award to a specific contractor.
- False Qualifications - Providing false information related to qualifications, certifications, or eligibility to serve as a contractor.
- Pass-Through Fraud - When a contractor uses another entity to qualify for a contract that it would otherwise be ineligible for.
- Split Purchases - Deliberately dividing a single purchase into multiple smaller transactions to avoid upper-level review or competitive bidding thresholds.



Corruption Schemes

Corruption occurs when individuals use their influence or positions of trust in a way that violates their duty to their employers or the government. Corruption schemes may include, but are not limited to, the following:

- Bribery - Involves the offering, giving, receiving, or soliciting of a thing of value to influence a decision.
- Kickback - When something of value is given in return for a favorable action.
- Collusion - Agreement to work together to defraud another or to do or obtain something forbidden by law.
- Conflict-of-Interest - Abusing a position of trust for personal benefit or to favor someone else.
- Economic Extortion - Obtaining something of value by using force, threats, or intimidation.
- Manipulation of Results - Breach of fiduciary duty through the manipulation of third-party reports intended to provide unbiased evaluations with the intent to mislead.
- Benevolent Fraud - This can occur when program staff encourage applicants to submit false information to qualify for assistance, or when they knowingly approve assistance for ineligible applicants “in an act of goodwill.”



Financial/Performance Reporting Fraud Schemes

Financial/Performance Reporting Fraud involves misrepresenting the information in financial or performance documentation with the intent to deceive and obtain a benefit. This type of fraud scheme may include, but is not limited to:

- Financial Reporting Fraud
 - Misclassification of Expenditures - The intentional misclassification of expenditures with the intent to deceive.
 - Overstating Expenditures - The intentional overstatement of expenditures with the intent to deceive.
 - Understating Program Income - The deliberate understatement of program income with the intent to deceive.
- Performance Reporting Fraud - The deliberate misrepresentation of the progress or impact of a project with the intent to deceive.



Fraudulent Payment Schemes

Fraudulent payment involves misrepresentation through the payment process to obtain a benefit. These schemes may include, but are not limited to:

- Fictitious or Overstated Expenses – Falsified or Duplicate Invoices - Claiming reimbursement for inflated expenses or expenses that were never incurred. This may include the use of falsified, altered, or duplicate invoices.
- Ghost Beneficiaries - Listing fictitious individuals as recipients of benefits or services in order to fraudulently obtain funds.
- Pay-and-Return - Overpaying a vendor intentionally and conspiring to pocket the refunded amount.
- Ghost Employees - Issuing wages to fictitious employees.
- Timesheet Fraud - Inflating the amount of hours worked to increase payroll cost reimbursements.

Opportunities for Enhancements Exist In CPD's Fraud Risk Management Activities

CPD Can Continue Progressing Its Fraud Risk Management Activities

CPD could continue furthering its anti-fraud efforts by including its grantees in the fraud risk identification and assessment process. In addition, CPD can leverage its fraud risk inventory to identify its data needs and implement or strengthen fraud analytics controls.

When identifying fraud risks, GAO recommends involving relevant stakeholders in the process of identifying fraud risks.¹⁷ Given the proximity of grantees to program operations and because fraud primarily occurs at the grantee or subrecipient level, grantees are uniquely positioned to recognize risks that CPD may overlook. Therefore, we believe that considering the grantees' perspectives and involving them in the process would enhance HUD's and CPD's ability to fully identify and understand the spectrum of risks affecting its disaster recovery funds.

¹⁷ U.S. Government Accountability Office (GAO) report GAO-15-593SP, "A framework for Managing Fraud Risks in Federal Programs," states that a leading practice for involving stakeholders in this process is including individuals responsible for the design and implementation of the program's fraud controls.

According to the Antifraud Playbook,¹⁸ after identifying and assessing fraud risks, entities should implement or strengthen fraud-centric controls to mitigate those risks. Among available types of anti-fraud controls, data analytics tools are the most effective that can be put into place. These tools do not have to be costly and complex; they can consist of simple analytical techniques designed to detect common patterns or anomalies within data to identify indicators of fraud. A fraud risk inventory can be a useful tool to initially determine which high-risk areas should be focused on and to help identify the specific data needs for developing and implementing effective data analytics tools. Entities should consider all potential approaches for selecting a starting point for implementing fraud analytics, which can be done with already available data. Entities can then explore data sharing opportunities with other external entities to obtain additional data to further advance their fraud analytics program. We consider a fraud risk inventory the foundation of an effective fraud risk management strategy, and an incomplete or outdated version could result in the improper design of anti-fraud controls, leaving control gaps and vulnerabilities unaddressed.

In a prior audit,¹⁹ GAO recommended that CPD develop guidance for grantees and subrecipients on collecting complete and consistent data to better support applicant eligibility determinations and fraud risk management. Further, in that report, HUD indicated it was developing a tool, known as the Disaster Recovery Data Portal (DRDP), to support data sharing between grantees and FEMA regarding CDBG-DR applicants. Collecting consistent and complete data and expanding data sharing agreements with other entities would enable CPD and its grantees to further develop and advance their data analytics tools to help prevent or detect fraud in the most effective way possible. Implementing all of these measures would reinforce HUD's commitment to protecting taxpayer dollars, consistent with the priorities set forth in its FY 2026 Annual Performance Plan.

CPD Should Pursue Improving Data Collection to Further Develop Data Analytics Tools That Combat Fraud

CPD should explore ways to improve data collection and should consider expanding data sharing agreements with other entities to further develop and advance its anti-fraud data analytics techniques.

Conclusion

We identified 57 potential fraud schemes affecting HUD's disaster recovery program, 20 of which CPD had previously identified. HUD's management has the overall responsibility for establishing internal controls to manage the risk of fraud in its disaster recovery program. While the HUD OIG fraud risk inventory may be informative to HUD in conducting a fraud risk assessment, it does not replace HUD's responsibility to effectively conduct its own comprehensive assessment and update its risk management strategy. In addition to leveraging the fraud risk inventory developed as part of this audit and the Chief Risk Officer's risk catalog, HUD should obtain grantee insights to strengthen its fraud risk management process to further enhance fraud prevention, detection, and response efforts within CPD and grantees. HUD should also use CPD's fraud risk inventory to identify data needs and potential system enhancements as well as implement data analysis techniques to improve its ability to monitor and respond to fraud risks. To further promote fraud awareness, HUD should communicate the fraud risks

¹⁸ The U.S. Chief Financial Officers Council (CFOC) and the U.S. Department of the Treasury, Bureau of the Fiscal Service (BFS) developed the "Program Integrity: The Antifraud Playbook" in October 2018.

¹⁹ U.S. Government Accountability Office (GAO) report [GAO-23-104382](#), "HUD Should Develop Data Collection Guidance to Support Analysis of Block Grant Fraud Risks," issued August 2023.

that were identified to relevant stakeholders. Ultimately, this will increase HUD's ability to safeguard its disaster recovery funding from fraud and ensure that limited resources are used for the intended beneficiaries and communities.

Recommendations

To assist CPD in its disaster recovery fraud risk assessments, we recommend that the Principal Deputy Assistant Secretary for Community Planning and Development:

- 1A. Leverage HUD OIG's fraud risk inventory and continue using the Office of the Chief Risk Officer's risk catalog to enhance CPD's fraud risk management process.
- 1B. Include grantees in the fraud risk identification process and communicate the risks and schemes identified for the disaster recovery program to relevant stakeholders, including, but not limited to, all HUD staff in the CPD Office of Disaster Recovery, grantees and sub-recipients.
- 1C. Use CPD's fraud risk inventory to identify data needs, potential system enhancements, and implement data analysis techniques to improve CPD's ability to monitor and respond to fraud risks in the Disaster Recovery program.

Management Response

CPD management generally agreed with the recommendations and stated that it remains committed to advancing its fraud risk management capabilities. CPD also welcomed additional support from OIG as it continues to build out its fraud risk management program. CPD provided comments for each recommendation and suggested a technical correction to a statement made in the body of the report.

CPD indicated that it has addressed recommendation 1A by incorporating the risks identified by OIG into its fraud risk inventory and further stated that it will continue to use the Office of the Chief Risk Officer's risk catalog and template as the foundation for its inventory. CPD agreed with recommendation 1B, stating that it will incorporate input from grantees and stakeholders and will enhance its communication efforts related to fraud with internal staff and external grantees and subrecipients. Regarding recommendation 1C, CPD agreed that improvements to data systems can strengthen antifraud efforts; however, due to departmental plans to consolidate all CPD grant systems into a new enterprise grant management environment, CPD is not pursuing system-specific enhancements at this time. CPD emphasized that in the meantime, it will continue to rely on manual analytics and other tracking tools to monitor audit recommendations, labor costs, and fraud risk indicators.

Management's full comments are included in Appendix A.

OIG Evaluation of Management Response

We appreciate CPD's commitment to advancing its fraud risk management capabilities and the actions taken toward those efforts. We also appreciate CPD's receptiveness to our recommendations. While we acknowledge that full implementation of certain recommendations may be affected by factors outside of CPD's control, we expect that, as part of the development of the new grants management system, CPD will identify its data needs and the analytics that can be performed once the system is placed into

production. We will continue to work with CPD during the audit resolution process to ensure that the recommendations are appropriately addressed.

We evaluated CPD's suggested edit to a statement in the report. Because the statement is a citation taken directly from a Government Accountability Office report, we did not revise our report.

Scope and Methodology

We conducted our audit work from April through July 2025 in San Juan, PR, Ft. Worth, TX, and Washington, DC. The audit covered the period January 1, 2023, through March 31, 2025. All interviews and discussions were conducted offsite.

To gain an understanding of the fraud risks to which the disaster recovery program is exposed, and to identify fraud risks not yet identified by HUD, we conducted the following activities to develop our comprehensive fraud risk inventory that includes both known and previously unrecognized fraud risks:

- Reviewed pertinent fraud risk guidance and criteria, including GAO's "Standards for Internal Control in the Federal Government;" U.S. Chief Financial Officers Council (CFOC) and the U.S. Department of the Treasury, Bureau of the Fiscal Service's (BFS) publication "Program Integrity: The Antifraud Playbook;" GAO's "Framework for Managing Fraud Risks in Federal Programs;" and the Association of Certified Fraud Examiner's (ACFE) publication "Occupational Fraud 2024: A Report to the Nations."
- Reviewed HUD rules and regulations applicable to the disaster recovery program, including public laws and federal register notices.
- Contacted and interviewed various officials from HUD's CPD and HUD OIG.
- Selected a sample of nine active disaster recovery grantees and interviewed responsible grantee officials.
- Reviewed HUD's policies and procedures, as well as other relevant documentation, such as the CPD fraud risk inventory.
- Identified and reviewed HUD OIG fraud bulletins, audit reports, semiannual reports, and HUD OIG Office of Investigation press releases.
- Identified and reviewed audit reports published by the GAO and press releases and other audit reports issued by OIGs that oversee programs similar to disaster recovery, such as the Federal Emergency Management Agency (FEMA) and the U.S. Small Business Administration (SBA).
- Documented the fraud risks and schemes we identified using a fraud risk map.²⁰

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.

²⁰ A fraud risk map outlines identified potential fraud schemes and related information for each scheme across an organization and can be used when performing fraud risk assessments.

Appendices

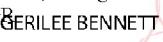
Appendix A – Management Response



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-7000

OFFICE OF COMMUNITY PLANNING
AND DEVELOPMENT

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

FROM: Gerilee W. Bennett, Acting ODR Director, Office of Disaster
Recovery, DGR 
GERILEE BENNETT
Digitally signed by GERILEE BENNETT
Date: 2025.12.17 15:06:08 -05'00'

SUBJECT: HUD Comments for OIG Draft Audit Report - Potential Fraud Risks
and Schemes for HUD's Disaster Recovery Funds

The Office of Community Planning and Development (CPD) has reviewed the draft audit report entitled, *Potential Fraud Risks and Schemes for HUD's Disaster Recovery Funds*. CPD offers the following comments on the draft audit report for consideration.

The HUD Office of Inspector General (OIG) conducted an audit to identify potential fraud risks and schemes that could negatively impact CPD disaster recovery funding. The OIG draft report indicated that CPD could improve its anti-fraud efforts by using OIG's fraud risk inventory in conjunction with a risk catalog developed by HUD's Office of the Chief Risk Officer; involving key stakeholders in the disaster recovery program's risk identification process and communicating the identified fraud risks to relevant stakeholders; and identifying data needs and potential system enhancements to improve its ability to monitor and respond to fraud risks in the Disaster Recovery program.

Generally, CPD agrees with the OIG regarding targeted Recommendations concerning fraud risk management activities. As noted in the audit report, CPD has developed a fraud risk inventory using the Office of the Chief Risk Officer (OCRO) template. CPD's inventory was consolidated from input gathered through multiple working groups across CPD's program areas. CPD and program staff identified more than 30 fraud risks. While implementation timelines are influenced by capacity constraints and HUD's broader modernization efforts, CPD remains committed to advancing its fraud risk management capabilities in coordination with other HUD offices. The Department welcomes additional support from OIG in the form of relevant risks, consultations and data systems improvements to consider as it builds out its fraud risk management program.

The discussion below includes CPD's comments on the specific OIG Recommendations:

OIG Recommendation 1A: Leverage HUD OIG's fraud risk inventory and continue using the Office of the Chief Risk Officer's risk catalog to enhance CPD's fraud risk management process.

HUD Comment: CPD has refined its fraud risk inventory to incorporate the risks identified in the OIG's risk inventory and thereby addressed this recommendation. CPD continues to use the OCRO risk catalog and template as the foundation for its fraud risk inventory.

OIG Recommendation 1B: Include grantees in the fraud risk identification process and communicate the risks and schemes identified for the disaster recovery program to relevant stakeholders, including, but not limited to, all HUD staff in the CPD Office of Disaster Recovery, grantees and sub-recipients.

HUD Comment: CPD agrees that incorporating input from grantees and other stakeholders, and using these channels to disseminate messages about fraud will result in more effective deployment of robust anti-fraud measures. CPD has developed training materials, program-specific fraud risk assessments, and a CPD-wide fraud risk register that identifies risks, controls, and mitigations by program area. These efforts support communication with internal staff as well as external grantees and subrecipients. CPD also continues to benefit from the fraud risk training that OIG has delivered nationwide.

OIG Recommendation 1C: Use CPD's fraud risk inventory to identify data needs, potential system enhancements, and implement data analysis techniques to improve CPD's ability to monitor and respond to fraud risks in the Disaster Recovery program.

HUD Comment: CPD agrees that improvements to data systems can further enhance anti-fraud efforts. CPD has used its fraud risk inventory to clarify data needs and inform development of a comprehensive program-level fraud risk assessment aligned with HUD's Fraud Risk Playbook and GAO/OIG frameworks. However, because HUD plans to consolidate all CPD grant systems into a new enterprise grant management environment, CPD is not pursuing system-specific enhancements at this time. In the interim, CPD continues to rely on manual analytics and structured tracking tools to monitor audit recommendations, labor costs, and fraud risk indicators.

Technical correction: The draft audit report misstates the function of the Disaster Recovery Data Portal (DRDP) on page 12. At present, the sole purpose of the DRDP is to facilitate grantee access to Federal Emergency Management Agency data relevant to recovery efforts.

Should you have any questions regarding these draft audit report comments, please do not hesitate to contact me or Jennifer H. Carpenter, Policy Division Director, Office of Disaster Recovery at Jennifer.Hylton.Carpenter@hud.gov.

Appendix B – HUD OIG Fraud Risk Inventory for the CDBG-DR Funds

Fraud Schemes Identified By HUD OIG That HUD Had Previously Identified

#	Fraud Scheme	Actors	Fraud Risk Entry Point	Fraud Scheme Description ²¹
1	Bribery	Any	Any	<p>The corrupt payment, receipt, or solicitation of a private favor for official action.</p> <p>Example(s): An ineligible applicant offers a bribe to a grantee employee in exchange for the approval of a disaster assistance application.</p> <p>A contractor offers a bribe to a procurement official in exchange for being awarded a contract.</p> <p>A grantee offers a bribe to a HUD employee to ignore the deficiencies identified in a monitoring site visit.</p> <p>A contractor offers a bribe to an inspector to obtain a favorable inspection report over repairs that are not in conformance with the contract.</p> <p>A contractor bribes a public official to influence a governmental decision.</p> <p>A contractor pays a local official to expedite permit approvals (Speed Money).</p> <p>Former City of Cleveland Demolition Bureau Chief Sentenced to 21 Months for Bribery and Extortion</p>
2	Change Order Abuse	Contractor or Subcontractor Grantee	Procurement (Solicitation and Post-award Phases)	<p>When a corrupt contractor, often in collusion with a procurement official, submits an artificially low bid with the intent to win a contract and subsequently increases the costs with unjustified change orders.</p> <p>Example(s): A contractor, in collusion with a procurement official, submits a low bid to win the contract and then inflates costs through multiple unjustified change orders.</p>

²¹ For some fraud schemes, we have included a link to press releases related to cases involving funding from HUD and other Federal agencies as examples of how HUD disaster recovery funds can be misappropriated by using the fraud scheme identified.

#	Fraud Scheme	Actors	Fraud Risk Entry Point	Fraud Scheme Description ²¹
3	Conflict-of-Interest	Any	Any	<p>Abusing a position of trust for personal benefit or to favor someone else.</p> <p>Example(s):</p> <p>A CPD official uses their position to recommend special waivers, extensions, or fund reallocations to improperly benefit specific jurisdictions or programs with which they have personal or financial ties.</p> <p>A CPD official with an undisclosed relationship with a grantee, intentionally conceals findings during a monitoring review to shield them from accountability.</p> <p>A procurement official awards a contract to a former colleague, relative, or associate, bypassing procurement standards.</p> <p>A program manager knowingly approves assistance to a family member who is ineligible for assistance.</p> <p>A contractor responsible for both assessing the damage and repairing homes inflates damage reports to justify unnecessary work and increase profit.</p>
4	Contract Commingling (Cross-charging)	Contractor or Subcontractor	Billing Procurement (Post-award Phase)	<p>Billing multiple contracts for the same task.</p> <p>Example(s):</p> <p>A contractor bills a single task across several programs and receives payments from each.</p>
5	Cost Mischarging	Contractor	Procurement (Post-award Phase) Expense Reimbursement	<p>When a contractor charges costs that are not allowable, reasonable, or cannot be allocated to the contract.</p> <p>Example(s):</p> <p>A contractor shifts costs from a non-CDBG-DR firm fixed price contract to a CDBG-DR funded Time and Material contract to increase profits.</p> <p>A contractor shifts costs from direct labor to overhead to bypass the direct labor limits under a Time and Materials contract.</p> <p>A contractor charges unallowable costs as overhead to reduce visibility and avoid oversight.</p> <p>A contractor charges the maximum amount of labor hours allowed, even if the hours were not actually worked.</p>

#	Fraud Scheme	Actors	Fraud Risk Entry Point	Fraud Scheme Description ²¹
6	Duplication of Benefits	Applicant	Application	<p>When an applicant receives funds from multiple programs for the same activity or need.</p> <p>Example(s):</p> <p>An applicant receives assistance from multiple programs for the same disaster related need without disclosing it.</p> <p>A disaster victim submits a claim for disaster assistance and intentionally fails to disclose funds received from an insurance settlement for the same need in order to receive disaster relief funds they are not entitled to.</p> <p>A homeowner uses disaster assistance funds to repair property damage, then files an insurance claim for the same repairs and keeps the insurance payout.</p> <p>Ambler, Pennsylvania Man Admits Defrauding FEMA Relating To Major Disaster</p>
7	False Damage Claim - Unrelated Damage	Applicant	Program Application	<p>Claiming for damages not caused by the disaster event.</p> <p>Example(s):</p> <p>An applicant submits a claim for roofing issues that existed prior to the disaster.</p> <p>An applicant submits a claim for damages caused by a plumbing leak that occurred after the disaster event.</p> <p>Manhattan U.S. Attorney Announces \$5.3 Million Proposed Settlement Of Lawsuit Against New York City For Fraudulently Obtaining FEMA Funds Following Superstorm Sandy</p>
8	False Eligibility Claim - Misrepresentation of Income, Assets or Family Composition	Applicant	Program Application	<p>Providing false information about income, assets or family circumstances to qualify for or increase the amount of disaster assistance.</p> <p>Example(s):</p> <p>An applicant omits certain income sources or the income of a household member to meet the income limit eligibility requirements for disaster assistance.</p> <p>An applicant claims to have a larger household size to qualify under the higher income limits applicable to larger households.</p> <p>A property owner understates tenant income to appear compliant with the low-income requirements for a forgivable disaster repair loan.</p>

#	Fraud Scheme	Actors	Fraud Risk Entry Point	Fraud Scheme Description ²¹
9	False Eligibility Claim - Occupancy Misrepresentation	Applicant	Program Application	<p>Misrepresenting the occupancy or the intention to reside in a property.</p> <p>Example(s):</p> <p>An individual falsely claims that a vacation home is their primary residence to receive disaster assistance.</p> <p>An individual falsely claims that a commercial property is their primary residence to obtain disaster assistance intended for homeowners.</p> <p>An individual obtains downpayment assistance to purchase a property without the intent of residing in it and rents it out for additional income.</p> <p>A recipient of a forgivable repair loan falsely claims to have occupied the property as their primary residence after repairs were completed to avoid repayment of the loan.</p>
10	False Eligibility Claim - Ownership Misrepresentation	Applicant	Program Application	<p>Misrepresentation of property or business ownership.</p> <p>Example(s):</p> <p>An applicant submits a claim for damages to a property or a business they do not own or did not own at the time of the disaster event.</p> <p>An applicant falsely claims that a business was operational at the time of the disaster to qualify for assistance.</p>
11	Identity Theft	Applicant	Program Application	<p>Applying for disaster aid by using another individual's identity or personal information without authorization.</p> <p>Example(s):</p> <p>An individual applies for disaster assistance using the personal information of a disaster victim without their consent.</p> <p>An individual submits a disaster relief claim using the personal information of a relative without consent and deposits the funds in their own account.</p> <p>Defendants Sentenced for Scheme to Defraud Local Housing Programs of Over \$100,000</p>
12	False Qualifications	Contractor	Procurement (Solicitation Phase)	<p>Providing false information related to qualifications, certifications, or eligibility to serve as a contractor.</p> <p>Example(s):</p> <p>A contractor falsely claims to be a small or disadvantaged business to increase the chances of being awarded a contract.</p>

#	Fraud Scheme	Actors	Fraud Risk Entry Point	Fraud Scheme Description ²¹
				<p>A contractor falsely claims to have all the licenses and certifications required to qualify for a construction project.</p> <p>A contractor submits falsified financial documents to give the appearance of greater capacity and qualify for a contract.</p>
13	Fictitious or Overstated Expenses - Falsified/Duplicate Invoices	Any	Expense Reimbursement	<p>Claiming reimbursement for inflated expenses or expenses that were never incurred. This may include the use of falsified, altered, or duplicate invoices.</p> <p>Example(s):</p> <p>A subcontractor bills for electrical work that was never performed on a home rehabilitation project.</p> <p>A grantee submits inflated invoices to obtain higher reimbursements.</p> <p>A grantee shifts administrative costs from one federal program to a CDBG-DR grant to cover budget shortfalls, or vice versa.</p> <p>A developer requests reimbursement for construction costs that have not been incurred.</p> <p>A contractor is reimbursed multiple times by submitting the same invoice.</p> <p>A contractor charges the maximum amount of labor hours allowed, even if the hours were not actually worked.</p> <p>A subcontractor charges for skilled labor at higher rates while unskilled labor was used.</p> <p>Former Cleveland City Council Member Sentenced to Prison</p>
14	Ghost Employees	Grantee or Subrecipient Contractor	Payroll	<p>Issuing wages to fictitious employees.</p> <p>Example(s):</p> <p>A payroll officer adds fictitious employee names to the payroll system and collects their payroll payments.</p> <p>A grantee employee continues to disburse salary payments to former staff members and intercepts the payments for personal use.</p>
15	Kickback	Any	Any	When something of value is given in return for favorable action.

#	Fraud Scheme	Actors	Fraud Risk Entry Point	Fraud Scheme Description ²¹
				<p>Example(s):</p> <p>A procurement official steers a contract to a specific contractor and in exchange receives a secret payment.</p> <p>An appraiser inflates the appraisal value of a property and, in return, receives a portion of the additional funds the homeowner receives through a buyout program.</p> <p>A program manager receives kickbacks from a contractor for knowingly approving payments on false invoices.</p> <p>An inspector receives a payment as a reward for overstating a damage assessment on a property to enable the contractor to inflate costs.</p>
16	Manipulation of Reports	Any	Appraisal/Inspection	<p>Breach of fiduciary duty through the manipulation of third-party reports intended to provide unbiased evaluations with the intent to mislead.</p> <p>Example(s):</p> <p>An applicant colludes with a damage assessor to understate property damage to stay within the repair cost limits and avoid triggering the full replacement of the structure which would result in a smaller structure under the grantee's program rules.</p> <p>A damage assessor and an applicant collude to inflate the damage assessment to qualify for the maximum assistance allowed for repairs.</p> <p>A homeowner and a home appraiser collude to increase the buyout offer by inflating the appraised value of the property above market value.</p> <p>A damage assessor, in collusion with a housing rehabilitation contractor, assesses for damages that did not occur to allow the contractor to overcharge the program.</p> <p>An inspector colludes with a contractor to certify that all repairs were completed as required by the contract, when nonconforming materials were used.</p>
17	Pay-and-Return	Grantee or Subrecipient	Expense Reimbursement	<p>Overpaying a vendor intentionally and conspiring to pocket the refunded amount.</p> <p>Example(s):</p> <p>A program official overpays a vendor and diverts the refunded amount to a personal account.</p>

#	Fraud Scheme	Actors	Fraud Risk Entry Point	Fraud Scheme Description ²¹
18	Product/Service Substitution (Nonconforming Goods or Services Fraud)	Contractor	Billing Procurement (Post-award Phase)	<p>Intentionally delivering substandard or non-compliant goods/services that do not meet contract specifications, while billing as if the contract specifications were met in full.</p> <p>Example(s):</p> <p>A contractor uses lower quality materials than those required in the contract.</p> <p>A contractor fails to complete all the work outlined in the contract but bills as though all requirements were met.</p> <p>A contractor uses prohibited materials or noncompliant materials that do not meet the contract standards.</p> <p>A contractor provides a service with unlicensed personnel in violation of contract terms.</p> <p>South Carolina Construction Company to Pay \$191,070 to the United States to Resolve False Claims Allegations</p>
19	Shell Company Abuse	Any	Expense Reimbursement Procurement (Solicitation Phase)	<p>The creation of fictitious entities to misappropriate funds.</p> <p>Example(s):</p> <p>An individual creates a fictitious organization to receive payments for services that are not intended to be rendered.</p> <p>An individual creates a fictitious non-profit organization to obtain subrecipient funding with no intention of delivering the promised services.</p> <p>Fake entities submit bids to give the false impression of competition and conceal the fact that a predetermined vendor was selected.</p>
20	Understating Program Income	Grantee	Grantee Financial Reporting	<p>The deliberate understatement of program income with the intent to deceive.</p> <p>Example(s):</p> <p>A grantee fails to report program income and redirects the funds for purposes other than those related to the grant.</p>

Additional Fraud Schemes Identified By OIG

#	Fraud Scheme	Actors	Fraud Risk Entry Point	Fraud Scheme Description ²¹
21	Check and Payment Tampering	Any	Disbursements	<p>The unauthorized alteration or manipulation of checks or electronic payment information to redirect funds for personal gain.</p> <p>Example(s): A grantee employee alters the payee's name of a vendor check to divert funds to a personal account.</p> <p>A grantee employee with access to the vendor payment system changes the bank account information of a vendor to divert a payment to his personal account.</p> <p>An individual impersonates a vendor and convinces a grantee to update the vendor bank information to redirect a payment to his personal account.</p> <p>A bad actor hacks the grantee vendor payment system and changes the payment information of vendors to redirect the payments to a personal account.</p>
22	Benevolent Fraud	Grantee or Subrecipient Applicant	Program Application	<p>When program staff encourage applicants to submit false information to qualify for assistance, or when they knowingly approve assistance for ineligible applicants "in an act of goodwill."</p> <p>Example(s): A grantee employee encourages an applicant to falsify information to qualify for assistance.</p> <p>Without the consent of the applicant, a grantee employee intentionally approves assistance for an ineligible application "as an act of kindness."</p>
23	Bid Manipulation	Grantee Contractor	Procurement (Solicitation and Bid Evaluation Phases)	<p>When a procurement employee influences the outcome of the bidding process by altering bids, manipulating evaluation criteria, or the improper disqualification of legitimate bids.</p> <p>Example(s): A procurement official unjustifiably disqualifies competing bids to secure a contract for a specific contractor.</p> <p>A procurement official alters submitted bids to ensure the selection of a preferred contractor.</p> <p>A procurement official modifies the bid evaluation criteria or scoring model to favor a specific contractor.</p>

#	Fraud Scheme	Actors	Fraud Risk Entry Point	Fraud Scheme Description ²¹
				A procurement official limits the bid submission period so that only the preferred contractor that received the bid information in advance has enough time to submit a bid.
24	Bid Rotation	Contractor	Procurement (Solicitation Phase)	<p>Agreement between competitors to take turns submitting the lowest (winning) bid on a series of contracts.</p> <p>Example(s): Competing bidders agree to take turns in submitting the lowest bid to circumvent competition.</p>
25	Bid Suppression	Contractor	Procurement (Solicitation Phase)	<p>When one or more competitors agree to refrain from bidding or withdraw an existing bid to ensure a predetermined bidder wins a contract. In return, the non-bidder may receive compensation or a subcontract.</p> <p>Example(s): Competitors agree not to bid so that a designated bidder is awarded the contract. The non-bidders are rewarded with a subcontract.</p>
26	Bid Tailoring	Grantee Contractor	Procurement (Pre-solicitation Phase)	<p>Drafting bid specifications to give an unfair advantage to a specific contractor. This can also involve the manipulation of cost models to enable inflated pricing and the provision of kickbacks to the procurement official.</p> <p>Example(s): A procurement officer tailors the contract eligibility requirements to favor a specific contractor. A procurement officer unduly narrows procurement requirements to favor a specific contractor, or broadens them to qualify an otherwise unqualified bidder. A procurement officer artificially inflates the cost of a project and steers the contract to a specific contractor in exchange for a kickback from the extra profit.</p>
27	Collusion	Any	Any	<p>Agreement to work together to defraud another or to do or obtain something forbidden by law.</p> <p>Example(s): Contractors collude to submit uncompetitive bids to ensure that the predetermined bidder wins the contract and give the false impression of competition. The losing bidders are rewarded with a kickback.</p>

#	Fraud Scheme	Actors	Fraud Risk Entry Point	Fraud Scheme Description ²¹
				<p>An applicant colludes with a damage assessor to underestimate property damage to stay within the repair cost limits and avoid triggering the full replacement of the structure which would result in a smaller structure under the grantee's program rules.</p> <p>A procurement officer artificially inflates the cost of a project and steers the contract to a specific contractor in exchange for a kickback from the extra profit.</p>
28	Complementary Bidding	Contractor	Procurement (Solicitation Phase)	<p>Competitors conspire to submit intentionally uncompetitive bids to ensure that the predetermined bidder wins the contract. In exchange, the losing contractors may receive a subcontract or a kickback.</p> <p>Example(s): Contractors collude to submit uncompetitive bids to ensure that the predetermined bidder wins the contract and gives the false impression of competition. The losing bidders are rewarded with a kickback.</p>
29	Contract Progress Payment Fraud	Contractor or Subcontractor	Billing	<p>Receiving payments based on false progress.</p> <p>Example(s): A developer receives a payment by falsely claiming to have completed 60% of a construction project, when only 20% has been completed.</p>
30	Defective Pricing	Contractor or Subcontractor	Procurement (Solicitation Phase)	<p>Providing inaccurate or incomplete pricing data in a cost type contract proposal to inflate costs.</p> <p>Example(s): A contractor includes excessively high labor or material cost estimates in a disaster assistance program.</p> <p>A contractor bids for a housing rehabilitation contract and fails to disclose subcontractor discounts for bulk purchases, thereby inflating the contract price.</p>
31	Economic Extortion	Any	Any	<p>Obtaining something of value by using force, threats, or intimidation.</p> <p>Example(s): A procurement official warns a contractor that they will be disqualified from consideration for a contract, unless a payment is made.</p>

#	Fraud Scheme	Actors	Fraud Risk Entry Point	Fraud Scheme Description ²¹
				A landlord demands a payment from a tenant and threatens eviction if they refuse.
32	Embezzlement	Grantee or Subrecipient Contractor	Handling of Cash/Assets	<p>The misappropriation of cash or property by an individual entrusted with the assets.</p> <p>Example(s): A grantee employee responsible for approving disbursements redirects assistance payments to their own bank account.</p>
33	False Damage Claim - False Damages	Applicant	Program Application	<p>Submitting a claim for damages that did not occur.</p> <p>Example(s): A business applicant falsely claims damages to equipment that was not damaged to receive disaster assistance.</p>
34	False Damage Claim - Inflated Damage or Property Value	Applicant	Program Application	<p>Overstating the damages or property value to receive disaster relief funds that exceed the actual loss or a replacement of greater value than the original property.</p> <p>Example(s): An applicant submits a damage claim and inflates the value of a structure to receive a higher quality replacement.</p> <p>Marina Owner Admits Lying to the SBA to Receive Disaster Loan in Connection with Hurricane Sandy</p>
35	False Damage Claim - Phantom Property	Applicant	Program Application	<p>Claiming for damages to property that does not exist.</p> <p>Example(s): An applicant falsely claims that a fence was destroyed in a storm, despite the fence never having existed, and receives funds for its replacement.</p>
36	False Eligibility Claim - Deceased Beneficiary	Applicant	Program Application	<p>Receiving or applying for disaster assistance on behalf of a deceased person.</p> <p>Example(s): A landlord fails to disclose the death of a tenant to continue receiving rental assistance payments.</p>

#	Fraud Scheme	Actors	Fraud Risk Entry Point	Fraud Scheme Description ²¹
				An individual applies for disaster relief assistance on behalf of a deceased parent.
37	False Eligibility Claim - False Landlord	Applicant	Program Application	<p>Falsely claiming to be a landlord to receive rental assistance.</p> <p>Example(s): An applicant falsely claims to be the landlord of a disaster affected property to receive disaster rental assistance.</p> <p>Two Sentenced in Scheme To Steal More Than \$850,000 in COVID-19 Housing Assistance Funds</p>
38	False Eligibility Claim - False Tenant	Applicant	Program Application	<p>Falsely claiming to be a tenant to receive rental assistance.</p> <p>Example(s): An applicant receives disaster rental assistance while living with relatives rent free.</p>
39	False Eligibility Claim - Ghost Applicant	Applicant	Program Application	<p>Using a fictitious person or entity to apply for assistance.</p> <p>Example(s): An individual applies for assistance using a fictitious entity or person to fraudulently obtain disaster funding.</p>
40	False Eligibility Claim - Inflating Revenue or Payroll Expenses	Applicant	Program Application	<p>Inflating business financials such as revenue, employee numbers and payroll expenses to receive a larger amount of disaster benefits.</p> <p>Example(s): A business owner inflates the revenue and payroll figures of its business to increase the amount of disaster relief assistance to be awarded.</p>
41	False Eligibility Claim - Misrepresentation of Citizenship or Lawful	Applicant	Program Application	<p>Falsely attesting to U.S. citizenship or lawful permanent residency to qualify for disaster assistance programs.</p> <p>Example(s): An ineligible foreign national uses forged documents as evidence of lawful permanent residency to fraudulently apply for and receive disaster aid.</p>

#	Fraud Scheme	Actors	Fraud Risk Entry Point	Fraud Scheme Description ²¹
	Permanent Residency			
42	Performance Reporting Fraud	Grantee	Grantee Progress Reporting	<p>The deliberate misrepresentation of the progress or impact of a project with the intent to deceive.</p> <p>Example(s): A grantee inflates the progress of a project with performance shortfalls in its Quarterly Performance Report to give the false appearance of compliance with project timelines, secure continued funding, and avoid scrutiny or corrective action.</p>
43	Ghost Beneficiaries	Grantee or Subrecipient Contractor or Subcontractor Property Owner or Manager HUD Employee	Expense Reimbursement	<p>Listing fictitious individuals as recipients of benefits or services in order to fraudulently obtain funds.</p> <p>Example(s): A homeless shelter adds fictitious individuals to the list of people served to claim higher reimbursements. A landlord uses synthetic identities to create fake tenants and collect rent subsidies.</p>
44	Larceny	Any	Handling of Cash/Assets	<p>The misappropriation of cash or assets with the intent of permanently depriving the rightful owner of its use or possession.</p> <p>Example(s): An individual steals construction materials from a job site and resells them for profit.</p>
45	Leaking Bid/Proposal Data	Grantee Contractor	Procurement (Pre-solicitation, Solicitation and, Bid Evaluation Phases)	<p>Sharing pre-bid specifications or confidential information from competitive bidders to give an unfair advantage to a favored bidder in the formulation of their proposal.</p> <p>Example(s): A procurement employee shares confidential bid details from competitors to a favored contractor to help them tailor their proposal for a better chance of winning the contract.</p>

#	Fraud Scheme	Actors	Fraud Risk Entry Point	Fraud Scheme Description ²¹
				A procurement official gives a preferred contractor early access to bid specifications before they are publicly posted to provide them with a head start in the proposal formulation process. This may also involve limiting the bid submission period to prevent competitors from responding on time.
46	Misclassification of Expenditures	Grantee	Grantee Financial Reporting	<p>The intentional misclassification of expenditures with the intent to deceive.</p> <p>Example(s):</p> <p>A grantee classifies ineligible costs under an allowable activity category to conceal the misuse of funds.</p> <p>A grantee misclassifies Administration/Planning Costs under a different activity category to bypass the activity caps.</p>
47	Misrepresentation or Omission of Change in Eligibility Status	Applicant	Certification	<p>The intentional omission or misrepresentation of changes that could affect benefit eligibility to continue receiving benefits they are not entitled to.</p> <p>Example(s):</p> <p>A rental assistance recipient deliberately fails to report an increase in income or relocation to continue to receive benefits that he is no longer entitled for.</p> <p>A developer that used CDBG-DR Gap funding for a Low Income Housing Tax Credits Program (LIHTC) project fails to disclose the conversion of its units to market-rate prior to the completion of the required affordability period to increase profits and avoid recapture.</p> <p>A beneficiary of a downpayment assistance program fails to disclose that he moved out of the property prior to the completion of the required occupancy period to avoid the repayment of the assistance.</p>
48	Misuse of Funds or Assets	Any	Post Award	<p>Using funds or property acquired with grant funds for unauthorized purposes.</p> <p>Example(s):</p> <p>A grantee purchases a pickup truck by claiming that it is necessary for the operation of the program but uses it for activities not tied to disaster recovery.</p> <p>Head of Consulting Firm Eclipse Capital Partners Agrees to Pay Over \$3.2 Million to Resolve Alleged False Claims Act Violations Relating to Economic Injury Disaster Loan Program</p>

#	Fraud Scheme	Actors	Fraud Risk Entry Point	Fraud Scheme Description ²¹
49	Overstating Expenditures	Grantee	Grantee Financial Reporting	<p>The intentional overstatement of expenditures with the intent to deceive.</p> <p>Example(s):</p> <p>A grantee overstates its expenditures in its Quarterly Progress Reports to conceal delays in the use of funding and avoid increased oversight.</p> <p>A grantee overstates its expenditures prior to the expenditure deadline to show that all of the funds were used and avoid having to return unspent funds.</p> <p>A grantee conceals the amount of unspent funds that it is holding in its bank account (cash on hand) by falsely reporting that all the funds it had drawn down have been fully expended to avoid having to return the funds and increased HUD scrutiny. (As a general standard, grantees should disburse the funds to pay for program costs within 3 business days of the receipt of those funds.)</p>
50	Pass-Through Fraud	Contractor or Subcontractor	Procurement (Solicitation Phase)	<p>When a contractor uses another entity to qualify for a contract that it would otherwise be ineligible for.</p> <p>Example(s):</p> <p>A debarred contractor uses a shell company to obtain a contract and circumvent the ban.</p> <p>A contractor circumvents a debarment by working through another entity as a subcontractor.</p> <p>A contractor uses an entity with a Disadvantaged Business Entity (DBE) certification to qualify for a contract, while the DBE performs no meaningful work. This may involve a kickback.</p>
51	Side Payments	Any	Program Application Delivery of Assistance	<p>The charge of fees that are not authorized under a program.</p> <p>Example(s):</p> <p>A grantee or program manager employee demands an unauthorized fee from applicants for processing their disaster assistance application.</p> <p>A home rehabilitation contractor falsely claims a repair task is not covered under the disaster program and charges an unauthorized fee to the homeowner.</p> <p>A landlord requires a tenant to make additional side payments beyond what is covered by the rental assistance.</p>
52	Split Purchases	Grantee	Procurement (Pre-solicitation Phase)	Deliberately dividing a single purchase into multiple smaller transactions to avoid upper-level review or competitive bidding thresholds.

#	Fraud Scheme	Actors	Fraud Risk Entry Point	Fraud Scheme Description ²¹
				<p>Example(s): A procurement officer splits a single purchase into two smaller transactions to circumvent the requirement for competitive bidding.</p>
53	Straw Buyer Scheme	Applicant	Program Application	<p>When a person is paid to apply for a mortgage on behalf of someone else.</p> <p>Example(s): A person is paid to apply for a mortgage and down payment assistance program on behalf of an ineligible individual that will occupy the property and make the mortgage payments.</p>
54	Timesheet Fraud	Grantee Contractor	Payroll	<p>Inflating the amount of hours worked to increase payroll cost reimbursements.</p> <p>Example(s): A grantee deliberately overstates the number of staff hours worked increase the reimbursement amount from the program.</p>
55	Unauthorized Subletting	Applicant	Sublease Agreement	<p>The unauthorized subletting of a rental unit for personal gain.</p> <p>Example(s): A tenant under disaster rental assistance sublets the rental unit while no longer occupying it or rents out a room for profit.</p>
56	Unjustified Sole Source	Grantee Contractor	Procurement (Pre-solicitation Phase)	<p>Improperly selecting a sole-source contracting method to exclude competition and direct the award to a specific contractor.</p> <p>Example(s): A procurement official bypasses procurement procedures by falsely claiming that no other vendors are available for a project, despite the existence of multiple qualified firms, to steer the contract to a preferred vendor.</p> <p>Former NYCHA Superintendent Sentenced To One Year In Prison After Trial Conviction For Bribery And Extortion Offenses</p>
57	Unnecessary Purchase/Service	Grantee Contractor	Billing Procurement (Post-award Phase)	<p>The purchase of goods or services that are not needed or unrelated to disaster recovery operations.</p> <p>Example(s): A housing rehabilitation contractor charges for repairs that are unnecessary or unrelated to the disaster with the intent of billing the maximum allowed per beneficiary and maximize profit. This scheme can involve collusion with the damage inspector.</p>

#	Fraud Scheme	Actors	Fraud Risk Entry Point	Fraud Scheme Description ²¹
				<p>A grantee uses grant funds to purchase laptops for staff who are not involved in disaster recovery operations.</p> <p>A project manager orders excessive quantities of building materials and sells the surplus for personal gain.</p>