Inadequate Controls Resulted in Questionable Payments and Potential Fraud

Significant internal control weaknesses in the process used to pay for SF property expenses made HUD vulnerable to and in some cases resulted in questionable payments and potential fraud. These weaknesses included (1) delegation of oversight functions in a manner that weakened the control environment, (2) lack of key control activities, including proper documentation and approvals and (3) limited monitoring of contractor performance. These weaknesses likely contributed to the $16.5 million in questionable and potentially fraudulent payments that we identified using data mining, document analysis and other forensic auditing techniques.

GAO classified $16.3 million of payments as questionable because they were not supported by sufficient documentation to determine their validity. GAO also classified $181,450 of payments as potentially fraudulent after visiting single-family properties being managed by a certain contractor. At all the properties visited, GAO noted discrepancies between what was represented on paid invoices and what was actually received. The photographs below were taken at one of the occupied properties after HUD paid $2,060 for bathroom repairs. These potentially fraudulent payments for single-family properties were made to the same contractor that was engaging in potentially fraudulent billing practices related to our earlier work on the HUD MF property program. HUD paid this contractor $2 million in fiscal year 2002 and $2.5 million in fiscal year 2003 for SF property expenses.

GAO is making 24 recommendations to strengthen HUD’s internal controls over SF and MF property programs, decrease questionable payments and improve contractor oversight. In responding to a draft of our report, HUD agreed with some of GAO’s findings and disagreed with others. In particular, HUD disagreed with GAO classifying certain payments as questionable. GAO reaffirms its position on its findings and all recommendations.

GAO also identified insufficient HUD monitoring of a major MF program with a state housing agency. While HUD provided all the funding for the program, it provided little oversight and instead relied on the state housing agency to perform oversight functions. Ten years into the program, actual cost totaled over $500 million dollars, almost triple the original development budget.