



OFFICE of  
**INSPECTOR GENERAL**

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UNITED STATES DEPARTMENT OF  
HOUSING AND URBAN DEVELOPMENT

# The U.S. Virgin Islands Housing Finance Authority's Fraud Risk Management Practices Are At or Below The Lowest Desired Level

**Audit Report Number: 2026-FW-1002**

**March 24, 2026**

## Highlights

### The U.S. Virgin Islands Housing Finance Authority's Fraud Risk Management Practices Are At or Below The Lowest Desired Level | 2026-FW-1002

#### 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) disaster recovery programs, fraud results in communities and individuals not receiving needed assistance to recover from and mitigate future disasters. 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.

We audited the U.S. Virgin Islands Housing Finance Authority's (VIHFA) fraud risk management practices to assess the maturity of its anti-fraud efforts. HUD heavily relies on its grantees to detect and prevent fraud, waste, and abuse<sup>1</sup> and VIHFA is a HUD Community Development Block Grant-Disaster Recovery (CDBG-DR) and -Mitigation (CDBG-MIT) grantee with nearly \$2 billion in block grant funding. Our objective was to assess VIHFA's fraud risk management practices for preventing, detecting, and responding to fraud when administering programs funded by HUD grants addressing the 2017 disasters.

#### What We Found

VIHFA does not have fraud risk management processes to prevent and detect fraud risks. We assessed VIHFA's fraud risk management program maturity at or below the lowest desired goal state (Ad Hoc), because some anti-fraud activities were disorganized, uncontrolled, and reactive, while other anti-fraud activities expected in a fraud risk management program were absent altogether. Examples demonstrating VIHFA's low maturity state include (1) its lack of an overall fraud risk management framework or a dedicated entity to lead fraud risk management activities; (2) its failure to design and implement fraud-specific control activities to prevent and detect potential fraud tailored to identify and prioritize fraud risks; (3) the lack of monitoring or evaluation of its anti-fraud activities; (4) the lack of setting an anti-fraud tone by management, even after the indictment of the former Chief Operating Officer related to a fraud scheme; and (5) the lack of involvement of all levels of the organization in protecting disaster recovery and mitigation funds from fraud. VIHFA's overall fraud risk management processes are at such a low maturity level because its management has not developed or implemented a structured fraud risk management framework, and it lacks a dedicated entity to lead fraud risk management activities. VIHFA should immediately implement fraud risk management practices to adequately protect its HUD funding provided for disaster recovery and mitigation efforts. Although VIHFA is currently working on implementing enterprise-risk management, fraud risk management activities do not appear to be incorporated.

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<sup>1</sup> HUD OIG Audit report 2023-FO-0001, Improvements Are Needed in HUD's Fraud Risk Management Program, issued October 26, 2022.

Because VIHFA is not proactively managing fraud risk, it likely missed opportunities to strengthen controls and reduce fraud vulnerabilities, leaving nearly \$2 billion in HUD disaster recovery and mitigation funds at increased risk of fraud. To fully achieve its goal state, VIHFA's management should establish an anti-fraud tone by effectively adopting leading practices for creating a culture and structure to manage fraud risks, otherwise its maturity to combat fraud within its disaster recovery program will not improve.

Implementing best practices and maturing VIHFA's fraud risk management program will improve the U.S. Virgin Islands' ability to prevent and detect fraud and effectively utilize federal funds to support long-term disaster recovery and mitigation needs of its vulnerable citizens impacted by the 2017 disasters.

## **What We Recommend**

We recommend that HUD instructs VIHFA to develop and implement a fraud risk management program, which includes (1) a dedicated anti-fraud component to oversee risk management activities; (2) a fraud risk assessment process tailored to all levels of the organization to identify and assess risks; (3) regular evaluation of its fraud risk profile and fraud risk assessment outcomes, and; (4) fraud awareness initiatives to ensure staff's fraud awareness when conducting day-to-day activities.

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## Background and Objective

In September 2017, Hurricanes Irma and Maria caused catastrophic damage to the U.S. Virgin Islands. From September 2017 to June 2019, Congress appropriated more than \$37 billion<sup>2</sup> to assist with the recovery of major 2017 declared disasters. From February 2018 to June 2021, the U.S. Department of Housing and Urban Development (HUD) allocated nearly \$2 billion in Community Development Block Grant Disaster Recovery and Mitigation (commonly known as CDBG-DR and CDBG-MIT) funds to the U.S. Virgin Islands to help it recover from the hurricanes, as shown in Table 1 below.

**Table 1: Funding allocated to U.S. Virgin Islands between 2018 and 2021**

Public Law	Date Allocated	Allocation Amount	Disbursed Amount <sup>3</sup>	Percent Disbursed	Purpose
P.L. 115-56	February 14, 2018	\$242,684,000	\$146,023,518	60.17%	CDBG-DR
P.L. 115-123	August 20, 2018	779,217,000	177,891,629	22.83%	CDBG-DR
P.L. 116-20	February 3, 2020	53,588,884	7,621,359	14.22%	CDBG-DR
P.L. 115-123	September 16, 2019	774,188,000	182,141,128	23.53%	CDBG-MIT
P.L. 115-123	June 28, 2021	67,653,000	678,706	1.0%	Electrical power system
	Total	<b>\$1,917,330,884</b>	<b>\$514,356,340</b>	<b>26.83%</b>	

The U.S. Virgin Islands Department of Housing was established in 1981 to address the existing shortage of low-and moderate-income housing in the United States Virgin Islands. The U.S. Virgin Islands Housing Finance Authority (VIHFA) was named the agency responsible for administering the disaster recovery and mitigation program funds and the Office of Disaster Recovery (ODR), within the Virgin Islands Housing Finance Authority, serves as the programmatic project manager to support recovery efforts from Hurricanes Irma and Maria.

### Fraud Risk Management

Fraud poses a significant risk to the integrity of federal programs and erodes public trust in government. The most widely accepted explanation for why some people commit fraud is known as the Fraud Triangle and it hypothesizes that if all three components of fraud are present (financial pressure, perceived opportunity and rationalization) a person is highly likely to pursue fraudulent activities.<sup>4</sup> The opportunity component exists due to the lack of internal controls and oversight. The pressure component includes financial pressure, unrealistic goals and targets, and possible incentives for committing fraud. Lastly, rationalization includes thoughts from a fraudster like “I’m owed,” “I’ll pay it back later,” “It’s insignificant to the company.”<sup>5</sup> 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 are identified and mitigated, fraud may be

<sup>2</sup> Public Law (P.L.) 115–56 appropriated \$7.4 billion on September 8, 2017. P.L. 115–123 appropriated \$28 billion on April 10, 2018. P.L. 116–20 appropriated \$2.4 billion on June 6, 2019.

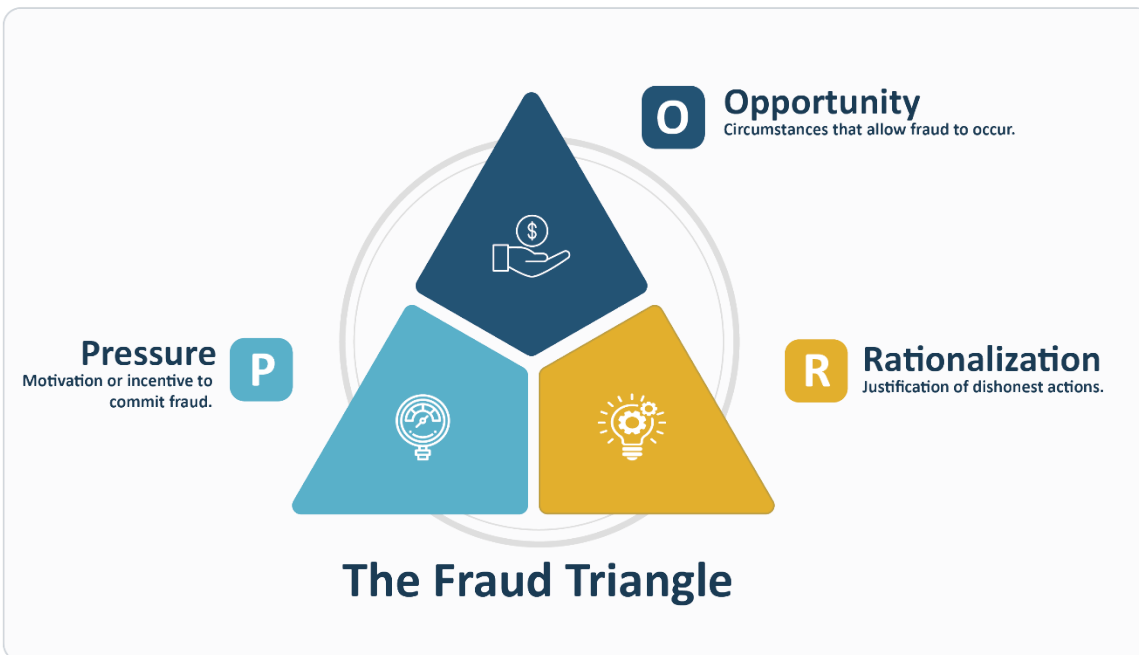
<sup>3</sup> Information retrieved on September 10, 2025, from HUD’s Disaster Recovery Reporting System (DRGR).

<sup>4</sup> Fraud 101: What is Fraud? By ACFE: <https://www.acfe.com/fraud-resources/fraud-101-what-is-fraud>

<sup>5</sup> Article: Is it Time to Rethink the Fraud Triangle? <https://www.fraudconferencenews.com/home/2022/6/20/is-it-time-to-rethink-the-fraud-triangle>

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.

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).

The fraud triangle provides a framework for understanding the potential causes of fraud and helps organizations develop strategies to assess and address those risks. According to the U.S. Government Accountability Office's (GAO) Standards for Internal Control in the Federal Government<sup>6</sup> and the Committee of Sponsoring Organizations' (COSO) Internal Control-Integrated Framework,<sup>7</sup> 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 meeting this principle. GAO and COSO make it clear 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.

<sup>6</sup> 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 January 1983, the Standards for Internal Control in the Federal Government is known as the Green Book. The Green Book may also be adopted by State, local, and quasi-governmental entities as a framework for an internal control system.

<sup>7</sup> On May 2013, COSO published the Internal Control – Integrated Framework to enable organizations to effectively and efficiently develop and maintain systems of internal control.

In July of 2015, GAO issued A Framework for Managing Fraud Risks in Federal Programs.<sup>8</sup> 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 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 that encompassed control activities to prevent, detect, and respond to fraud. The Framework identified four components: commit, assess, design and implement, and evaluate and adapt.

Similarly, 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 non-profit, the information necessary to design a plan specific to the risks for the entity. The guide lays out 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 Principle 8 of 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.

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 Anti-fraud Playbook in October 2018 for use by the entire financial management community, including Federal, State, and local agencies. The Anti-fraud Playbook contains a maturity model designed to help agencies assess and identify the current state and goal state of their anti-fraud program and related efforts. The maturity model includes four progressive levels of fraud risk maturity which are defined below from the lowest to highest desired goal state.

**Ad hoc** – Fraud risk management processes are disorganized, even chaotic, and anti-fraud 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.

**Initial** – 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.

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

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

Furthermore, the Anti-fraud Playbook organizes fraud risk management into the following four phases: (1) create a culture, (2) identify and assess, (3) prevent and detect, and (4) insight into action. Fraud risk management helps ensure program integrity by continuously and strategically mitigating both the

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<sup>8</sup> GAO-15-593SP, issued July 2015.

likelihood and effects of fraud. When fraud risks are identified and mitigated, fraud may be less likely to occur. Although the occurrence of fraud indicates there is a fraud risk, a fraud risk can exist even if actual fraud has not yet occurred or been identified. Effectively managing fraud risk helps to ensure programs fulfill their intended purpose, ensure funds are spent responsibly, and assets are safeguarded. The fraud risk management framework assists agencies in accomplishing these goals.

## Fraud Risk Management in the Disaster Recovery and Mitigation Programs

Legislation providing supplemental funding for disaster recovery and mitigation for the U.S. Virgin Islands also included a general requirement that “as a condition of making any grant, the [HUD] Secretary shall certify in advance that such grantee has in place proficient financial controls, procurement processes, and has established adequate procedures ... to detect and prevent waste, fraud, and abuse of funds.”<sup>9</sup> HUD, through Federal Register notices, requires grantees to undertake anti-fraud activities, including certifying<sup>10</sup> to HUD that it has adequate procedures to detect and prevent fraud, waste, and abuse. This includes verifying the accuracy of applicant information; monitoring policies saying how, why, and when monitoring will occur; and demonstrating that it has an internal auditor providing programmatic and financial oversight of the grantees’ activities.<sup>11</sup> Additionally, HUD monitors its grantees, does a general risk analysis annually for guiding annual monitoring of disaster recovery grantees, and requires grantees to attend anti-fraud training provided by HUD OIG during the life of the grant.

In the May 2021 audit, “Disaster Recovery: HUD Should Take Additional Action to Assess Community Development Block Grant Fraud Risks,” GAO reported that:

According to HUD officials, the agency’s current practice for fraud risk management is to first create a top-level, agency standard, and then apply it to individual units of the agency, such as [CPD], which is the office responsible for CDBG-DR. HUD officials also told us that due to the block grant nature of the CDBG program, HUD does not consider fraud risks in programs managed by grantees to be direct risks to HUD itself. Instead, they are fraud risks to the grantees as the “recipients” of CDBG-DR funding.<sup>12</sup>

Our objective was to assess VIHFA’s fraud risk management practices for preventing, detecting, and responding to fraud when administering programs funded by HUD grants addressing the 2017 disasters.

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<sup>9</sup> Public Law (P.L.) 115–123, 132 STAT. 104, February 9, 2018, Certifications.

<sup>10</sup> Federal Register Notice FR-6489-N-01, Phase Two: Financial Certification and Oversight of Funds, II.A.1.d. Procedures to detect and prevent fraud, waste, and abuse.

<sup>11</sup> P.L. 115-56 Financial Management and Grant Compliance Certification for States and Grantees subject to State CDBG Requirements, January 2018, Section F(c).

<sup>12</sup> GAO report GAO-21-177, HUD Should take Additional Action to Assess Community Development Block Grant Fraud Risks, issued May 2021.

## Results of Audit

### VIHFA Lacks Effective Fraud Risk Management Practices Essential for Fraud Prevention

VIHFA does not have fraud risk management processes in place to prevent and detect fraud risks. As a result, we assessed its fraud risk management program maturity and rated at or below the lowest desired goal state (Ad Hoc), because some anti-fraud activities were disorganized, uncontrolled, and reactive, while some anti-fraud activities expected in a fraud risk management program were absent altogether. Some examples demonstrating such a low maturity state include (1) the lack of an overall fraud risk management framework or a dedicated entity to lead fraud risk management activities; (2) the lack of designing and implementing fraud-specific control activities to prevent and detect potential fraud tailored to identified and prioritized fraud risks; the lack of monitoring or evaluation of its anti-fraud activities; (3) lack of setting an anti-fraud tone by management, even after the indictment of the former Chief Operating Officer<sup>13</sup> related to a fraud scheme; and (4) the lack of involvement of all levels of the organization in protecting disaster recovery and mitigation funds from fraud. VIHFA is currently working on implementing an enterprise risk management framework. However, it does not appear that fraud risk management activities have been incorporated. Until VIHFA implements a fraud risk management framework, there remains a high risk that fraud may continue to occur or go undetected and jeopardize the integrity of its programs and compliance with federal requirements. As a result, this will leave nearly \$2 billion in disaster recovery and mitigation funds at risk.

### VIHFA's Fraud Risk Management Maturity Is At Or Below the Lowest Maturity Level

We assessed the current state of VIHFA's fraud risk management practices using the Anti-fraud Playbook's Program Maturity Model, which organized 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<sup>14</sup>. Our review concluded that VIHFA's overall fraud risk management practices were at or below the lowest state of maturity (Ad Hoc) which indicated fraud risk management processes are disorganized, uncontrolled, reactive, or simply absent. We identified that VIHFA should improve its anti-fraud efforts to better identify and protect against fraud and improve its fraud risk management maturity level to the goal state of operational or leadership. To achieve its goal state, VIHFA would need to go beyond the requirements set forth in HUD Federal Notices and 24 CFR 570 and follow anti-fraud best practices, as published by organizations such as GAO<sup>15</sup> and COSO.<sup>16</sup>

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<sup>13</sup> See footnote 3.

<sup>14</sup> The CFOC's and Treasury BFS's Anti-fraud Playbook identifies 16 leading practices for effective fraud risk management organized into 4 phases of action. The results of our audit are aligned to match the Anti-fraud Playbook's four-phased approach.

<sup>15</sup> To help managers combat fraud and preserve integrity in government agencies and programs, GAO identified leading practices for managing fraud risks and organized them into a conceptual framework called the Fraud Risk Management Framework.

<sup>16</sup> COSO partnered with the Association of Certified Fraud Examiners (ACFE) in 2016 to create the Fraud Risk Management Guide. The joint report is designed to aid organizations in effectively establishing an overall fraud risk management program.

**Phase 1 – Create a Culture Maturity Level: Ad Hoc** - VIHFA’s Anti-fraud efforts Are Unstructured and Reactive, and It Has Not Effectively Established a Program to Combat Fraud.

The Anti-fraud Playbook encourages agencies<sup>17</sup> to build a culture that is conducive to both integrity efforts and furthering anti-fraud measures at the agency. GAO’s Framework for Managing Fraud Risks in Federal Programs suggests management 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. Our assessment of VIHFA’s maturity within this phase identified their status at the lowest desired goal state (Ad Hoc).

**Figure 2: Create a Culture**

Current Anti-fraud Activities	Areas for Improvement
<p>VIHFA has an Anti-Fraud, Waste, Abuse, and Mismanagement policy (Anti-fraud Policy).</p>	<p>Evaluate areas of existing policy needed to improve maturity.</p> <p>Communicate the policy throughout VIHFA to promote fraud awareness.</p> <p>Conduct regularly scheduled comprehensive fraud training for all employees and subrecipients and host fraud awareness events.</p>
<p>Establishment of an Internal Auditor.</p>	<p>Establish a dedicated anti-fraud component to design and oversee risk management activities within the organization and its subrecipients, to include assessing fraud risks across the organization.</p> <p>Establish a function as a single point of accountability across the agency, assuming responsibility for addressing fraud and integrating with anti-fraud and program integrity activities.</p> <p>Coordinate across business units to streamline risk management activities.</p> <p>Communicate results of anti-fraud activities to all levels of the organization, including Executive Management.</p> <p>Act against identified potential incidents of fraud.</p>

VIHFA officials have not implemented an effective fraud risk management program or designated a component or individual to design and oversee its fraud risk management activities. In addition, VIHFA’s divisions appear to operate in silos which hinder communication and the effective management of fraud risks. Although VIHFA has established an “Anti-fraud, Waste, Abuse, and Mismanagement” policy (Anti-fraud Policy), it has not been adequately communicated, implemented, or followed. For example, the VIHFA Anti-fraud Policy states that to promote fraud awareness, VIHFA will perform some of the following procedures:

<sup>17</sup> The Program Integrity: The Anti-fraud Playbook is available for use by the entire financial management community, including Federal, State, and local agencies.

- 1) ***Conduct a thorough and comprehensive enterprise-wide risk assessment:*** VIHFA does not have a formal enterprise-wide risk assessment process where fraud risk management activities may be incorporated.
- 2) ***Conduct comprehensive fraud training for all employees and subrecipients that will occur on a regular schedule through training seminars, online webinars, conference calls, or other means and will be repeated periodically to keep employees and subrecipients alert to the potential for fraud:*** VIHFA does not have any anti-fraud training in place. Instead, it relies solely on annual HUD training covering this subject. Consequently, eight of the ten (80%) VIHFA officials interviewed stated they do not know what types of fraud schemes their programs are susceptible to. In addition, an official stated more fraud training is needed. However, their concerns were not voiced to management because fraud is a sensitive subject at VIHFA and around the island now.
- 3) ***Emphasis on procedures for reporting fraud (internally and externally), the internal process is to report it immediately to the Internal Auditor:*** Even after the recent events of fraud that resulted in the conviction of the former VIHFA COO, interviewed officials did not know or have a clear understanding of the process to follow when reporting instances of fraud or suspected fraud. Additionally, ten VIHFA officials confirmed that there are no bulletins or visual aids displayed in VIHFA's offices to maintain fraud awareness when conducting day-to-day activities.

VIHFA's anti-fraud policy states the internal auditor has a specific role in detecting fraud, waste and abuse. However, the scope of work that the internal auditor conducts through fraud risk evaluations does not go beyond routine risk assessment considerations, and it is not equivalent to an entity-wide fraud risk evaluation. In addition, VIHFA has not implemented anti-fraud measures, such as developing a risk management program, creating an anti-fraud entity, regularly conducting fraud risk assessments, developing a response plan to address identified fraud risks by implementing anti-fraud controls tailored to the identified risks, and regularly evaluating the effectiveness of all fraud risk management controls and activities to constantly adapt and improve them. It is also important individuals in decision making roles are provided with necessary information for the proper implementation of VIHFA's Anti-fraud Policy. These typical anti-fraud measures are essential for a robust fraud risk management program that adheres to the best practices outlined by industry leaders such as GAO and COSO.

During March of 2023 and November of 2023, as part of the internal audit planning process, the Internal Audit Division conducted a Fraud Risk Questionnaire exclusively for VIHFA's Procurement Division and its Disaster Recovery Finance Unit. The purpose of the questionnaire was to assist the Internal Audit Division in understanding VIHFA's potential exposure to fraud and to inform the respective Divisions and Unit Directors of any identified risk areas. The results of the questionnaire revealed (1) there were VIHFA employees who had personal knowledge of fraud or suspected fraud, (2) VIHFA does not have a culture that supports ethical behavior in the workplace, (3) employees had personal knowledge of instances where management has overridden controls, (4) employees are aware of motives, pressures, and (or) incentives within the organization that would make someone susceptible to committing fraud. Despite the gravity of the information received, these results were not acted upon to mitigate fraud risks when it was public knowledge fraud

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**VIHFA's culture does not promote an anti-fraud environment:**

A VIHFA questionnaire revealed grave fraud concerns, yet the information was not shared across management, and no action was taken to address the information provided by employees.

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had potentially occurred at VIHFA.<sup>18</sup> Instead of conducting an investigation and sharing the alarming questionnaire results with VIHFA’s management team, especially the Executive Director, the Internal Audit Division shared the information exclusively with the Procurement Division and the Finance Unit directors, who are no longer employed by VIHFA and appear to have taken no action to elevate or address the matter. VIHFA officials mishandling important disclosures in this manner supports the Executive Director’s statement of being “excluded from day-to-day agency operations” and precludes VIHFA from maturing its fraud risk management practices. Beyond the questionnaire exercise, VIHFA management provided no evidence of concrete efforts it undertook to understand how its program was vulnerable to the fraud that occurred or could occur in the future or steps it could take to mitigate the risks. Therefore, VIHFA’s management should establish a fraud risk management structure to effectively manage such disclosures from employees. Effective actions conducive to a healthy anti-fraud environment in VIHFA’s programs will enhance the protection of nearly \$2 billion that VIHFA has been entrusted to administer on behalf of its vulnerable citizens impacted by the 2017 disasters.

**Phase 2 – Identify and Assess Maturity Level: Ad Hoc - VIHFA Has Not Assessed Fraud Risks that Could Negatively Affect Its Program Effectiveness**

The Anti-fraud 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. Furthermore, managers who effectively assess fraud risks should 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 VIHFA’s maturity within this phase identified their status at the lowest desired goal state (Ad Hoc).

**Figure 3: Identify and Assess**

Current Anti-fraud Activities	Areas for Improvement
Internal Audit Division conducted a limited scope fraud-specific risk questionnaire across two divisions.	<p>Implement fraud risk assessment processes tailored to all levels of the program to identify and assess risks to determine VIHFA’s disaster recovery and mitigation program’s risk profile.</p> <p>Prioritize identified risks and develop responses to mitigate the likelihood and impact of risks, including the identification of “owners” for each response activity.</p>

As discussed in Phase 1 above, the Internal Audit Division conducted a limited scope fraud-specific risk questionnaire across two divisions. The questionnaire results suggest that VIHFA does not have a culture and structure conducive to effective fraud risk management. For example, for the two divisions assessed, the results included:

- One of four (25%) employees surveyed affirmed awareness of allegations of fraud or suspected fraud made by employees, vendors, customers, or other people.
- Three of four (75%) employees surveyed stated that training covering fraud prevention and instructions to report any suspicious activities did not exist.

<sup>18</sup> See footnote 3.

- Two of four (50%) employees surveyed stated there is not a confidential reporting system or channel in place for employees to report suspected fraud without fear of retaliation.
- Two of four (50%) employees surveyed affirmed personal knowledge of fraud or suspected fraud.

Apart from the Internal Audit Director who prepared the questionnaire, the VIHFA officials we interviewed stated they were unaware of the questionnaire and its results. Because this information was not shared with management, no actions were implemented by VIHFA to respond to or mitigate the reported fraud risk red flags. Further, VIHFA has not conducted a fraud risk assessment at the organizational and subrecipient level, as recommended in the Anti-fraud Playbook. These assessments are particularly important because fraud primarily occurs at the grantee and subrecipient levels. The questionnaire VIHFA’s internal auditors prepared was limited in scope because it did not contain all the elements that would constitute a fraud risk assessment such as detailing inherent risks, likelihood and impact, and fraud risk tolerance. As a result, VIHFA had not (1) performed a fraud risk assessment, (2) designed and implemented a process to regularly conduct such assessments, (3) determined a fraud risk tolerance, (4) examined the suitability of existing controls in mitigating fraud and prioritizing residual fraud risks, and (5) determined a fraud risk profile, as called for in this phase.

**Phase 3 – Prevent and Detect Maturity Level: None - VIHFA Has Not Designed, Developed or Implemented Fraud Risk Management to Strengthen Anti-Fraud Controls for Its Highest Risk Areas.**

The Anti-fraud Playbook encourages agencies to develop or strengthen anti-fraud 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: policies, procedures, techniques, and mechanisms, to prevent and detect potential fraud. Our assessment of VIHFA’s maturity within this phase identified their status below the lowest goal state of Ad Hoc, meaning activities expected in this phase were absent.

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**VIHFA’s current state of anti-fraud efforts:** VIHFA had not developed a response plan for any identified fraud risks that would allow for the design and implementation of specific control activities.

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**Figure 4: Prevent and Detect**

Current Anti-fraud Activities	Areas for Improvement
<p>VIHFA has not established activities 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.</p>	<p>Based on a completed fraud risk profile and fraud risk assessment develop, document, and communicate an anti-fraud strategy for employees and stakeholders that contain all key elements described in GAO’s “A Framework for Managing Fraud Risks in Federal Program”</p> <p>Identify fraud efforts that would be useful to prevent and detect suspected fraud schemes.</p> <p>Develop a data analytics strategy as part of an overall anti-fraud strategy, regularly evaluate its effectiveness, and update and expand to mature the process.</p>

Because VIHFA has not conducted a fraud risk assessment, it has not gotten to the point of developing a fraud risk profile, creating a response plan for the fraud risks identified during a fraud risk assessment,

and developing an anti-fraud strategy based on the fraud risk profile. For example, six of the ten interviewed VIHFA Officials stated there is no process or forum in place to discuss fraud mitigation activities within the organization. Therefore, VIHFA 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.

Furthermore, VIHFA neither developed nor implemented anti-fraud controls and activities that contribute to fraud prevention and detection. VIHFA has not incorporated fraud-specific data analytics techniques into its anti-fraud efforts. Specifically, interviews with ten VIHFA officials about these types of efforts disclosed the following:

- Five officials (50%) stated they were not aware of the use of any analytical tools for this purpose.
- Two officials (20%) appeared to conflate current internal audits scope of work which encompasses a routine risk assessment with the incorporation of fraud-specific data analytics techniques.
- One official (10%) stated that fraud-specific data analytics is addressed by simply following VIHFA's policies and procedures in place. However, controls and activities discussed in VIHFA's policies and procedures are not adequately communicated, implemented, or followed."

According to the Anti-Fraud Playbook, data analytics tools are the most effective anti-fraud controls that could be put into place. Furthermore, the Association of Certified Fraud Examiners' (ACFE) Occupational Fraud 2022: A Report to the Nations<sup>19</sup> found that organizations using data analytics techniques to fight fraud reduced the cost of fraud schemes by 47 percent and reduced the duration of fraud by 56 percent. Therefore, VIHFA should establish overall preventive and detection activities to better protect its nearly \$2 billion in disaster recovery and mitigation funding by developing and implementing fraud-specific data analytics tools. This could include, but it is not limited to, the following:<sup>20</sup>

1. Bribery: Kickbacks Data Analytics Tests. For example, analyze charts of accounts to identify vague or suspicious accounts where inappropriate payments could be expended to, such as "miscellaneous expense," "special expenses," etc.
2. Conflicts of Interest: Purchasing Schemes Data Analytics Tests. For example, compare employee names, addresses, and account information to vendor master information to identify potential conflicts of interests or hidden relationships.
3. Cash: Theft of Cash on Hand Data Analytics Test: Verify the segregation of duties for cash bookkeeping, bank reconciliation, and check-signer functions.

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<sup>19</sup> ACFE's Occupational Fraud 2022: A Report to the Nations is based on the ACFE 2021 Global Fraud Survey, conducted from July to September 2021. Respondents were presented with 77 questions regarding the details of fraud cases they had investigated. ACFE received 2,110 responses, which were used in developing the report.

<sup>20</sup> Anti-Fraud Data Analytics Tests: <https://www.acfe.com/fraud-resources/fraud-risk-tools---coso/anti-fraud-data-analytics-tests>

**Phase 4 – Insight Into Action Maturity Level: None - VIHFA Does Not Have Anti-Fraud Activities in Place.**

The Anti-Fraud Playbook encourages agencies to use available information, either within the agency or from external sources, and shift 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 anti-fraud strategy, as well as controls to detect fraud and response efforts. Our assessment of VIHFA’s maturity within this phase identified their status at below the lowest goal state of Ad Hoc, meaning activities that would occur in this phase were absent.

**VIHFA’s current state of anti-fraud efforts:** VIHFA does not have a process to monitor and evaluate the effectiveness of fraud risk management activities.

**Figure 5: Insight Into Action**

Current Anti-fraud Activities	Areas for Improvement
<p>Because VIHFA has not established any anti-fraud activities, it is unable to conduct any monitoring or evaluation activities.</p>	<ul style="list-style-type: none"> <li>Develop a plan outlining how VIHFA will respond to identified instances of fraud.</li> <li>Identify, prioritize, and review potential instances of fraud.</li> <li>Develop lessons learned to inform and improve fraud risk management activities and anti-fraud controls.</li> <li>Communicate the results of monitoring activities to stakeholders.</li> </ul>

During interviews, VIHFA officials confirmed that the agency has not established anti-fraud activities nor a monitoring process to periodically evaluate the effectiveness of its fraud risk management activities. Since VIHFA has not conducted a proper fraud risk assessment, it has not gotten to the point of developing a fraud risk profile, creating a response plan for the fraud risks identified during a fraud risk assessment, and developing an anti-fraud strategy based on the fraud risk profile. Further, VIHFA has not conducted any monitoring or evaluation of its anti-fraud activities. As a result, its programs remain susceptible to undetected fraud.

**VIHFA’s Management Has Not Set an Anti-Fraud Tone to Protect Disaster Recovery and Mitigation Funds from Fraud**

VIHFA’s management has not set an anti-fraud tone for its disaster recovery and mitigation programs. Furthermore, management has not created a culture or structure to effectively manage fraud risks. Often after a major fraud event, organizations commit to making substantive changes and implementing control activities to ensure that it protects itself from additional or future frauds. However, VIHFA did not take appropriate action after learning that potential fraud occurred in its programs, nor act a year later when its former Chief Operating Officer (COO) was convicted of fraud. In addition, management officials we interviewed were either unaware of or did not act on fraud risk information provided by employees, which reinforces a permissive culture where anti-fraud efforts are not prioritized. The nearly \$2 billion that VIHFA received to help citizens recover from the devastating 2017 Hurricanes is exponentially more

than its current \$98 million<sup>21</sup> in active CDBG <sup>22</sup> and other HUD grants.<sup>23</sup> This substantial funding paired with an underdeveloped fraud risk culture increases the risk of fraud. Without strong and dedicated anti-fraud commitment from management along with employees who understand their roles in protecting the programs they are administering on a day-to-day basis, VIHFA's disaster recovery and mitigation funds are highly susceptible to fraud, waste and abuse.

### **Establishing Clear Expectations and Milestones are Key To Developing and Implementing a Structured Fraud Risk Management Framework**

In February of 2025, VIHFA hired a Recovery Risk Management Officer with the purpose of implementing an enterprise risk management (ERM) process. The purpose of the ERM process is to help an organization identify, evaluate, and prioritize the risks that could hinder their ability to achieve their goals. However, VIHFA officials appeared to confuse ERM with a comprehensive fraud risk management framework. For instance, multiple high-ranking officials referred to the Recovery Risk Management Officer as the official in charge of fraud risk management, but this person's responsibilities do not include the development and implementation of the fraud risk management framework. This further highlights the critical need for leadership to demonstrate a firm understanding and commitment to fraud prevention. It also underscores the importance of implementing a fraud risk management framework to include efforts to raise awareness of fraud and clearly define responsibilities for managing fraud risks.

Fraud risk management is a specialized area within ERM that focuses on identifying and mitigating the specific risk of fraud. Without a formal plan to implement an effective fraud risk management framework HUD and VIHFA are missing critical control using leading practices that could be used for detecting and preventing fraud and minimizing risk for nearly \$2 billion in disaster recovery funding. VIHFA's current practices risk HUD's disaster recovery funds being more susceptible to fraud, making it more likely that fraud will go undetected and that HUD and VIHFA will be unable to understand program-specific risks and design corresponding controls to prevent them.

## **Conclusion**

Because VIHFA management has not implemented fraud risk management processes to protect its programs from fraud, its fraud risk management practices are at or below the lowest maturity level (Ad Hoc or Nonexistent). VIHFA missed opportunities to reduce its fraud risks by (1) operating in silos and not creating a culture or structure to manage fraud risk; (2) not assessing fraud risks that could negatively impact its programs, even after VIHFA fraud events that resulted in multiple criminal indictments and the conviction of its former Chief Operating Officer; (3) not developing or implementing anti-fraud controls and activities that contribute to fraud prevention and detection; and (4) not monitoring or evaluating its programs for fraud. The overall lack of attention to potential fraud risks throughout VIHFA's disaster recovery and mitigation programs heightens the need for a robust fraud risk management framework. Without establishing an agency-wide anti-fraud culture and tone, the nearly \$2 billion in disaster recovery and mitigation funds administered by VIHFA will continue to be at a greater risk of fraud. This will leave

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<sup>21</sup> Information retrieved from HUD's Line of Credit Control System (LOCCS) for VIHFA on July 25, 2025.

<sup>22</sup> HUD provides annual CDBG grants on a formula basis to states, cities, and counties to develop viable urban communities by providing decent housing and a suitable living environment, and by expanding economic opportunities, principally for low- and moderate-income persons

<sup>23</sup> Other HUD grants include Emergency Solutions Grant (ESG), HOME Investment Partnership Programs, Housing Voucher Program (also known as Section 8), Special Needs Assistance, and Comprehensive Housing Counseling.

the vulnerable citizens of the U.S. Virgin Islands without the full assistance they need to recover from the devastating 2017 disasters.

## Recommendations

We recommend that HUD's Deputy Assistant Secretary instruct VIHFA to:

- 1A. Develop and implement a fraud risk management program with an emphasis on obtaining high-level management buy-in to ensure commitment from the board and senior management and subsequently, to ensure involvement of all levels of the program in setting an anti-fraud culture and tone to effectively combat fraud. This would include ensuring the program includes specific procedures to effectively manage fraud disclosures from employees and emphasis on reporting fraud to the HUD OIG Hotline.<sup>24</sup>
- 1B. Establish a dedicated anti-fraud component to design and oversee risk management activities within the organization and its subrecipients.
- 1C. Implement fraud risk assessment processes tailored to all levels of the program to identify and assess risks to determine VIHFA's disaster recovery and mitigation program's risk profile.
- 1D. Evaluate its program's fraud risk profile and fraud risk assessment outcomes to (1) design risk responses and specific actions for responding to fraud, and (2) develop, document, and communicate an anti-fraud strategy for employees and stakeholders that contain all key elements described in GAO's "A Framework for Managing Fraud Risks in Federal Program" (3) monitor and evaluate fraud risk management activities to improve the organization's fraud risk management.
- 1E. Implement fraud awareness initiatives, such as official anti-fraud training for staff and stakeholders, including subrecipients. This could include developing frequent formal communication containing newsletters or bulletins and post physical visual displays to ensure staff's fraud awareness when conducting day-to-day activities.
- 1F. Upon completion of recommendations 1A – 1E, assess whether VIHFA has established and implemented mature fraud risk management practices within its disaster recovery and mitigation programs.

## Management Response

VIHFA's management generally agreed with the recommendations and stated it takes fraud prevention seriously and has been actively working to strengthen its fraud risk management practices. VIHFA described recent training efforts and stated that in 2025 it was denied requested training by HUD OIG due to scheduling limitations. VIHFA management also explained that the questionnaire referenced in the report was a limited scope, anonymous tool used for internal audit planning, not a comprehensive fraud risk assessment and that results were discussed with the respective division leadership during the (internal) audit. Management also indicated that it has updated policies and procedures and created the Recovery Risk Management Office with a designated Recovery Risk Management Officer to coordinate

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<sup>24</sup> <https://www.hudoig.gov/hotline/report-fraud> or 1-800-347-3735.

risk assessment and mitigation efforts. VIHFA acknowledged that these measures represent initial steps, and that further work is required to align its current practices with GAO standards and expects to have a full implementation and comprehensive fraud risk management program by the second quarter of year 2026.

CPD's management generally agreed with the audit recommendations outlining VIHFA's need to mature its fraud risk management practices and reduce fraud vulnerabilities. The Department recognized the importance of grantees developing and implementing fraud prevention and detection strategies and strong anti-fraud cultures and systems. Aligned with the Department's priorities to address fraud, CPD is committed to work with VIHFA on its fraud risk management framework and to strengthen its internal controls to mitigate fraud, waste, and abuse.

Management's full comments are included in Appendix A.

## **OIG Evaluation of Management Response**

We acknowledge VIHFA's response and its commitment to actively develop a comprehensive fraud risk management program. Regarding VIHFA's comment about HUD OIG fraud training, HUD OIG provides disaster fraud training to as many HUD grantees as possible each year and occasionally offers repeat training to grantee(s) based on need and the timing of prior training. Generally, additional training is not offered until several years have passed.

In VIHFA's case, HUD OIG provided disaster fraud training in 2024. Given that this training occurred just over one year ago, we believe it should have sufficiently equipped VIHFA with the necessary information on fraud and fraud risks impacting its programs. HUD OIG remains available to discuss potential additional training opportunities subject to availability based on other grantees' specific needs.

Additionally, during the audit, management did not provide evidence that conclusions or formal communications regarding the questionnaire discussed in the report were shared with its executive leadership or its Board. As such, we made no revisions to the report regarding this issue. Otherwise, management's response is generally responsive to our recommendations. We encourage VIHFA to work with HUD throughout the audit resolution process to ensure that all corrective actions fully address each recommendation, including the implementation of an FRM program, establishment of a dedicated anti-fraud component, implementation of fraud risk assessment processes, evaluation of its programs' fraud risk profiles and fraud risk assessment outcomes, implementation of fraud awareness initiatives, and assessing the maturity of the fraud risk management practices within its disaster recovery and mitigation programs.

We also acknowledge CPD's response and its commitment to actively work with VIHFA to mature its fraud risk management framework and to strengthen its internal controls to mitigate fraud, waste, and abuse. We will continue to work with CPD during the audit resolution process to ensure that the recommendations are appropriately addressed.

## Scope and Methodology

We conducted our audit work from April 2025 through June 2025 in San Juan, PR. The audit covered the period from September 27, 2018, through March 31, 2025. All interviews and discussions were conducted offsite.

To gain an understanding of the fraud risk management environment at VIHFA 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 DOT BFS's Anti-fraud Playbook, GAO's Framework for Managing Fraud Risks in Federal Programs, ACFE's Occupational Fraud 2022: A Report to the Nations, and disaster recovery and mitigation criteria, such as applicable Federal Register notices.
- Interviewed multiple VIHFA officials, including the Executive Director, Chief Disaster Recovery Officer and Chief Operating Officer; Chief Financial Officer; Legal Counsel; Disaster Recovery Finance Director; Acting Procurement and Contracting Director; Director of Internal Audit; Director of Facilities and Property Management; and the Director of Regulatory Services Division.
- Reviewed VIHFA's policies and procedures, as well as other relevant documentation.
- To determine the maturity level of VIHFA's fraud risk management practices, we used the Anti-fraud Program Maturity Model contained in the Anti-fraud Playbook. We followed GAO's A Framework for Managing Fraud Risks in Federal Programs and the CFOC's Anti-fraud 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 – Management Response

### U.S. Virgin Islands Housing Finance Authority’s Response



January 16, 2026

Kilah S. White  
Assistant Inspector General for Audit & Evaluation  
U.S. Dept of Housing and Urban Development  
Office of Inspector General  
451 7th Street SW  
Washington, DC 20410

**Re: VIHFA Comments: HUD-OIG Draft Audit Report – USVI Fraud Risk Management - No. 2026-FW-10XX**

Dear Inspector White:

On December 19, 2025, the U.S. Virgin Islands Housing Finance Authority received a draft proposed audit report on its Fraud Risk Management Practices from the U.S. Department of Housing and Urban Development, Office of Inspector General (HUD-OIG), Office of Audit and Evaluation.

VIHFA is deeply committed to fostering a culture of integrity, transparency, and accountability through ongoing anti-fraud education and awareness initiatives. The Authority conducts regularly scheduled fraud prevention training for all employees and subrecipients as part of its efforts to strengthen fraud awareness and reinforce its ethical responsibilities, including how and where to report fraud, waste, and abuse. Further in our efforts to educate employees, subrecipients, and vendors, VIHFA requested a HUD-OIG-led Anti-Fraud Waste and Abuse prevention training but was denied due to HUD OIG scheduling limitations. The Authority, instead, held its annual Fraud, Waste, and Abuse training in November 2025 with more than 200 attendees territory wide.

Additionally, in 2025, VIHFA strengthened its fraud risk awareness through targeted training, agency-wide communications, and ongoing risk assessments. Staff received fraud risk management instruction during the April 2025 Risk Management Training, supplemented by educational material. Fraud, Waste, and Abuse policies are consistently communicated through multiple channels, including onboarding materials, to ensure agency-wide awareness. While these efforts enhance internal controls and risk awareness, VIHFA continues to develop a formal, enterprise-wide Fraud Risk Management assessment aligned with GAO standards.

VIHFA strengthened internal controls by developing a comprehensive manual with standardized documentation and a formal SOP that establishes clear requirements for recordkeeping, documentation integrity, and regulatory compliance across departments. VIHFA’s legal department conducted agency-wide training, inclusive of executive management, on topics such as fraud, waste, and abuse risks, practical prevention strategies, and accurate and complete documentation. Supporting these efforts, the Special Counsel is pursuing targeted training in fraud, waste, and abuse prevention, with the goal that upon completion, this expertise will be applied collaboratively with executive management and

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the Recovery Risk Management Office to strengthen compliance oversight, internal controls, and streamlined agency-wide governance.

While the OIG noted that a formal, structured Fraud Risk Management (FRM) program is still evolving, VIHFA emphasizes that strong foundational practices have already been implemented to support its development. VIHFA acknowledges the importance of establishing structures and processes to effectively manage fraud risk across the organization and its subrecipients. In pursuit of this goal, VIHFA created a Recovery Risk Management Office and appointed a Recovery Risk Management Officer in February 2025. This role is responsible for coordinating risk management activities, supporting fraud risk identification and mitigation efforts, and promoting a culture of integrity across program activities. Consistent with GAO guidance, executive leadership retains responsibility for oversight and ownership of fraud risk management, with the Recovery Risk Management Officer serving in a coordinating and implementation support capacity. Through this, VIHFA ensures that fraud risk assessment and mitigation are prioritized across all levels of the Authority.

VIHFA acknowledges the importance of systematically identifying and assessing fraud risks that could impact the effectiveness of its disaster recovery and mitigation programs. In support of this, the Authority's Recovery and Risk Management Officer conducts scheduled assessment meetings with staff to discuss potential risks and vulnerabilities relevant to program operations. These sessions inform documented observations, recommendations, follow-up actions, and ratings, which are shared with both staff and leadership to support awareness and risk-informed decision-making as the Authority works toward implementing a structured fraud risk assessment process.

Furthermore, VIHFA prioritizes identified risks and develops targeted responses to mitigate their likelihood and impact. Each response activity is assigned to a designated Risk Owner to ensure accountability and effective follow-through. Tailored training is also provided to reinforce risk awareness and support continuous improvement. While external reviews may focus primarily on internal processes, VIHFA remains committed to a holistic approach that addresses risks at all program levels.

VIHFA takes communication across all business units and levels seriously and follows established channels to ensure risk information is shared appropriately. The fraud-related questionnaire referenced by HUD OIG was a limited-scope, anonymous tool used for audit planning within the Procurement Division and Disaster Recovery Finance Unit, not a comprehensive fraud risk assessment. Its purpose was to identify fraud risk indicators and inform the audit scope, and the results were discussed with the respective division leadership during the audit. Audit conclusions are formally communicated to executive leadership and the Board through issued audit reports and presentations, rather than as standalone communications.

VIHFA has established key fraud risk management practices and is actively strengthening and formalizing its FRM framework to ensure systematic prevention and detection of fraud in high-risk areas. To support future implementation, VIHFA has taken several foundational steps to strengthen internal controls and operational consistency.

VIHFA is actively developing a comprehensive Fraud Risk Management (FRM) program, with full implementation targeted for the second quarter of 2026. Foundational steps already undertaken include the review and revision of policies and processes (with a policy review completed in July 2024 and SOPs incorporated by July 2025), the establishment of a RAIDs log, and internal training for Program staff beginning in August 2025. Tailored fraud risk assessments are being conducted across all programs under the leadership of the Recovery Risk Management Officer, and efforts are underway to align these assessments with GAO standards.

To promote an anti-fraud culture, the Authority has implemented training, formal notices to subrecipients, agency-wide communications, educational materials, and a dedicated anti-fraud video scheduled for release in 2026. Periodic reviews of policies and procedures continue, and the Authority plans to expand training and program-level efforts agency-wide to ensure all employees are equipped to support fraud prevention and detection.

VIHFA acknowledges that these measures represent initial steps, and that further work is required to fully design, implement, and operationalize controls aligned with identified fraud risks. The Authority remains committed to continuous improvement, transparency, and collaboration as it strengthens its anti-fraud framework, builds accountability at all levels, and safeguards its programs and resources.

We appreciate the guidance and remain committed to continuous improvement, transparency, and collaboration as we strengthen our anti-fraud framework. While VIHFA acknowledges that elements of its fraud risk management program continue to mature, the Authority respectfully notes some differences in assessment and remains committed to continuous improvement, transparency, and collaboration. VIHFA appreciates the guidance and oversight provided by its partners and regulatory agencies and will continue to take steps to strengthen fraud awareness and safeguard its programs and resources. These ongoing efforts reflect a proactive and collaborative approach to maintaining strong fraud risk management practices.

Sincerely,



Eugene Jones, Jr  
Executive Director

# HUD Management's Response



OFFICE OF COMMUNITY PLANNING  
AND DEVELOPMENT

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

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

FROM: Bryan W. Horn, Deputy Assistant Secretary for Grant Programs,  
DG

SUBJECT: HUD Comments for OIG Draft Audit Report –The U.S. Virgin  
Islands Finance Authority's Fraud Risk Management Practices are  
At or Below the Lowest Desired Level

Digitally signed by BRYAN  
HORN  
DN: cn=BRYAN HORN, c=US, o=U.S. Government, ou=U.S. Department of Housing and Urban Development, ou=Office of Community Planning and Development, email=B.Horn@HUD.GOV

The Office of Community Planning and Development (CPD) has reviewed the draft audit report entitled “The U.S. Virgin Islands Finance Authority’s (VIHFA) Fraud Risk Management Practices Are at or Below the Desired Level” for the Community Development Block Grant Disaster Recovery (CDBG-DR) and CDBG-MIT programs administered by the VIHFA. CPD generally agrees with the OIG’s recommendations and offers the following comments on the draft audit report for consideration.

The U.S. Department of Housing and Urban Development (HUD) Office of Inspector General (OIG) conducted a review of VIHFA’s fraud risk management practices for its CDBG-DR and CDBG-MIT grants. The OIG draft report concluded that VIHFA does not have fraud risk management processes to prevent and detect fraud risks. The OIG also determined that VIHFA’s fraud risk management program maturity is at or below the lowest desired goal state, establishing that some anti-fraud activities were disorganized, uncontrolled, and reactive, while other anti-fraud activities, expected in a fraud risk management program, were absent altogether. Accordingly, the OIG names the following examples highlighting VIHFA’s low maturity state, including:

1. Its lack of an overall fraud risk management framework or a dedicated entity to lead fraud risk management activities;
2. Its failure to design and implement fraud-specific control activities to prevent and detect potential fraud tailored to identify and prioritize fraud risks;
3. The lack of monitoring or evaluation of its anti-fraud activities;
4. The lack of setting an anti-fraud tone by management, even after the indictment of the former Chief Operating Officer related to a fraud scheme; and
5. The lack of involvement of all levels of the organization in protecting disaster recovery and mitigation funds from fraud.

Moreover, the OIG states that VIHFA’s overall fraud risk management processes are at such a low maturity level because its management has not developed or implemented a structured fraud risk management framework, and it lacks a dedicated entity to lead fraud risk management activities. In light of these findings, the OIG recommends that VIHFA should immediately implement fraud risk management practices to adequately protect its HUD funding provided for disaster recovery and mitigation efforts.

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In response to these findings, the Department would like to bring the regulatory controls that HUD has in place to detect and prevent fraud, waste, and abuse to the forefront. For CDBG-DR and CDBG-MIT grantees, the applicable *Federal Register (FR)* notices establish requirements to detect and prevent fraud. Particularly, for VIHFA, the requirements are specified in the following sources:

- 83 FR 5844, *Allocations, Common Applications, Waivers, and Alternative Requirements for 2017 Disaster Community Development Block Grant Disaster Recovery Grantees*, published on February 9, 2018, (CDBG-DR);
- 83 FR 40314, *Allocations, Common Application, Waivers, and Alternative Requirements for Disaster Community Development Block Grant Disaster Recovery Grantees; Second Allocation*, published on August 14, 2018, (CDBG-DR);
- 85 FR 4681, *Allocations, Common Application, Waivers, and Alternative Requirements for Disaster Community Development Block Grant Disaster Recovery Grantee*, published on January 27, 2020, (CDBG-DR);
- 86 FR 32681, *Allocations, Common Applications, Waivers, and Alternative Requirements for Community Development Block Grant Disaster Recovery Grantee; Electrical Power Systems in Puerto Rico and the U.S. Virgin Islands*, published on June 22, 2021, (Electrical Grid);
- 84 FR 47528, *Allocations, Common Application, Waivers, and Alternative Requirements for Community Development Block Grant Mitigation Grantees; U.S. Virgin Islands Allocation*, published on September 10, 2019, (CDBG-MIT); and
- 84 FR 45838, *Allocations, Common Application, Waivers, and Alternative Requirements for Community Development Block Grant Mitigation Grantees; published on August 30, 2019* (CDBG-MIT Main Notice).

As established in these notices, the grantee is required to assume, certify, and undertake various anti-fraud activities at different stages of the grant lifecycle to aid in the prevention of fraud, waste, and abuse of federal funds. For example, 83 FR 5856, which applies to the grants subject to this audit, grantees and subrecipients are required to attend fraud-related training provided by the HUD OIG. The same notice requires grantees to have procedures to detect and prevent fraud, waste, and abuse. These same requirements are also present in the CDBG-DR and CDBG-MIT grant agreements. The grantee staff have attended the OIG fraud training when offered. VIHFA submitted updated Fraud, Waste, and Abuse Policies and Procedures in 2023 as required by the Financial Management and Grant Compliance Certification completed in 2023. However, the OIG's audit indicates that VIHFA has not implemented these procedures. CPD, in collaboration with the OIG, will continue to focus resources to strengthen VIHFA's fraud prevention and detection procedures and to evaluate its implementation.

To further illustrate the controls in place to mitigate fraud, CPD uses the authority set forth in 2 CFR 200 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards. Specifically, 2 CFR 200.206 is used to assess the risk of each grantee, and 2 CFR 200.208(b) provides that specific conditions may be placed on a grant award based on that assessment of risk. These conditions are designed to provide additional assurance that program funds are used appropriately and that programs are implemented in a manner that prevents fraud, waste, and abuse. Accordingly, the Department establishes program-specific risk criteria and

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applies tailored award conditions, monitoring requirements, and oversight mechanisms as necessary to mitigate identified risks throughout the period of performance. HUD has placed, and continues to monitor specific grant conditions on the USVI CDBG-DR and MIT grants based on ODR's risk assessments.

Additionally, Public Law 115-56 requires the Secretary to certify, in advance of signing a grant agreement, that the grantee has proficient financial controls and procurement processes in place, adequate procedures for fraud prevention and detection, and proper grant management. Moreover, consistent with 2 CFR 200.206 of the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Requirements), HUD evaluates each grantee's capacity to effectively manage the funds through a review of the grantee's implementation plan and capacity assessment. Among other criteria, a grantee is deemed to have proficient financial management controls if it has assessed its financial standards and has submitted the completed Public Law 115-56 Financial Management and Grant Compliance Certification Checklist. Through its lifecycle, the grant will be subject to HUD's monitoring for compliance with its certifications. HUD has fulfilled this requirement by monitoring VIHFA eight times since 2019 and issuing multiple findings, 37 of which remain open. Some of these monitoring findings recommended that the grantee improve its internal controls as outlined in 2 CFR 200.303.

For this audit report, the OIG included other documents, standards, and guides that VIHFA could use as reference for its Fraud Risk Management program implementation, as listed below:

- The GAO's *Standards for Internal Control in the Federal Government* U.S. Government Accountability;
- The GAO's *A Framework for Managing Fraud Risks in Federal Programs*;
- The U.S. Chief Financial Officers Council (CFOC) and the U.S. Department of the Treasury, Bureau of the Fiscal Service (DOT BFS)'s *Program Integrity: The Antifraud Playbook* and *Anti-fraud Program Maturity Model*; and
- ACFE's *Occupational Fraud 2022: A Report to the Nations*.

These documents referenced in the draft report offer valuable best practices for HUD and grantees. CPD will continue to leverage these resources to support its grantees as they improve their fraud risk management capabilities.

The OIG's draft report recommends HUD's Deputy Assistant Secretary instruct VIHFA to do the following:

- 1A. Develop and implement a fraud risk management program with an emphasis on obtaining high-level management buy-in to ensure commitment from the board and senior management and subsequently, to ensure involvement of all levels of the program in setting an anti-fraud culture and tone to effectively combat fraud. This would include ensuring the program includes specific procedures to effectively manage fraud disclosures from employees and emphasis on reporting fraud to the HUD OIG Hotline.

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- 1B. Establish a dedicated anti-fraud component to design and oversee risk management activities within the organization and its subrecipients.
- 1C. Implement fraud risk assessment processes tailored to all levels of the program to identify and assess risks to determine VIHFA's disaster recovery and mitigation program's risk profile.
- 1D. Evaluate its program's fraud risk profile and fraud risk assessment outcomes to (1) design risk responses and specific actions for responding to fraud, and (2) develop, document, and communicate an anti-fraud strategy for employees and stakeholders that contain all key elements described in GAO's "A Framework for Managing Fraud Risks in Federal Program" (3) monitor and evaluate fraud risk management activities to improve the organization's fraud risk management.
- 1E. Implement fraud awareness initiatives, such as official anti-fraud training for staff and stakeholders, including subrecipients. This could include developing frequent formal communication containing newsletters or bulletins and post physical visual displays to ensure staff's fraud awareness when conducting day-to-day activities.
- 1F. Upon completion of recommendations 1A – 1E, assess whether VIHFA has established and implemented mature fraud risk management practices within its disaster recovery and mitigation programs.

Overall, the Department generally agrees with the audit recommendations from the OIG outlining VIHFA's need to mature its fraud risk management practices and reduce fraud vulnerabilities. HUD recognizes the importance of grantees developing and implementing fraud prevention and detection strategies and strong anti-fraud cultures and systems. Aligning with the Department's priorities to address fraud, CPD is committed to working with VIHFA to mature its fraud risk management framework and to strengthen its internal controls to mitigate fraud, waste, and abuse.

Should you have any questions regarding these draft audit report comments, please do not hesitate to contact me or Gerilee W. Bennett at [gerilee.w.bennett@hud.gov](mailto:gerilee.w.bennett@hud.gov).

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