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August 13, 2024

Governor Gavin Newsom
1021 O Street, Suite 9000
Sacramento, CA 95814

Dear Governor Newsom:

I write to express my disappointment and frustration about the recent damning audit from the Inspector General of the U.S. Department of Housing and Urban Development (HUD), documenting the lack of fraud controls with respect to Federal housing funds meant to help Californians experiencing or potentially facing homelessness during the height of the COVID-19 pandemic.

Federal and California taxpayers expect that when emergency relief is provided to help vulnerable Californians, government stewards of these precious taxpayer dollars will deploy aggressive anti-fraud risk measures. At the very least, these government agencies should follow Federal guidelines regarding fraud countermeasures. The Federal government even provides state agencies with the Antifraud Playbook and the Greek Book, which provides detailed guidance on scaling up fraud detection and risk management when there is an influx of funds. In fact, state agencies receiving Federal dollars are required to establish internal fraud controls in line with the Green Book recommendations, which clearly means that California is out of compliance given the outcome of this audit.

Based on the HUD Inspector General audit and the subsequent responses by California's Department of Housing and Community Development (HCD) and the HUD Community and Planning Development office in San Francisco, it is clear that sufficient taxpayer fraud protection measures were not implemented, nor did HCD even attempt to fortify their fraud detection as they felt that "it was not necessary to create a separate fraud risk management framework or build upon its existing [enterprise risk management] framework," even given California's fraught history with fraud. As stated in the audit, "HCD's overall fraud risk management practices were at the lowest desired state of maturity," when monitoring over \$319.5 million awarded to the State of California through the Emergency Solutions Grants program from the Federal CARES Act.

While I appreciate that upon the Inspector General's audit and recommendations, HCD is willing to accept and implement anti-fraud recommendations, on behalf of my constituents and millions of California taxpayers, I would like to know the following:

1. Out of the over \$319.5 million awarded to help vulnerable Californians at risk of experiencing homelessness due to the pandemic, what steps have California and HCD taken to determine whether and how much fraud occurred within that lump sum?
2. Of the fraud identified, how much money has been recouped, and what prosecutorial actions have been taken against those who chose to defraud taxpayers and eligible recipients, especially in a time of dire need?
3. Have any actions or steps been taken to hold state government officials accountable for their lack of anti-fraud risk controls for these monies, including for those who delayed reporting suspected incidents of fraud for almost 1.5 years? Accepting audit recommendations after the fact ensures program integrity going forward, but does not address the lack of practiced responsibility and accountability for taxpayer dollars that have already been fraudulently taken.

The Inspector General audit is correct when it states “[f]raudulent activity in the ESG CARES Act program can lead to significant financial losses, reputational damage to [California] and the U.S. Department of Housing and Urban Development, breach of fiduciary duty, and most importantly, loss of funding assistance to intended beneficiaries.” California already suffered a black eye nationwide when it was exposed that a lack of anti-fraud controls led to an estimated overpayment of \$20 billion in pandemic unemployment assistance, of which 70% still has not been recouped, and almost \$55 billion total in overpayments over recent years. Especially as our nation faces a \$35 trillion national debt and California recently faced a \$68 billion annual shortfall, the buck must stop somewhere; leadership is needed—from you on down to your cabinet secretaries and state agency employees—to safeguard and protect taxpayer dollars from being wasted and to disabuse the nation of the notion that California tolerates waste, fraud, and abuse.

I look forward to your response.

Sincerely,



Vince Fong
Member of Congress