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# Report: Federal Low Income Housing Program Lacks Basic Anti-Fraud Safeguards

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The federal government's flagship affordable housing program lacks basic anti-fraud safeguards, according to a new government watchdog report.

Last week the Government Accountability Office (GAO) released an investigation into the $9 billion a year Low Income Housing Tax Credit (LIHTC) program, finding that it lacks the necessary monitoring to prevent contractors, developers, and other program beneficiaries from fraudulently overbilling the system.

This has been a long-running problem for the LIHTC program, which has been wracked in recent years by revelations of large-scale fraud and abuse. In 2016, a group of developers and contractors in Florida pled guilty to defrauding LIHTC of some $36 million in affordable housing funds. That same year, a Los Angeles housing developer was indicted on charges stemming from an effort to defraud the program of some $50 million.

In both cases, developers conspired with contractors to inflate the construction costs of their affordable housing projects, something the complex, poorly monitored LIHTC program does little to guard against.

Unlike other federal housing programs, which are administered by the Department of Housing and Urban Development (HUD), LIHTC is managed by the Internal Revenue Service (IRS), which doles out tax credits to state housing finance agencies (HFAs) who in turn award these tax credits to affordable housing developers based on the costs of their projects. These affordable housing developers then sell off the tax credits to banks and investors who use them to lower their own tax liability.

The complexity of LIHTC and the fact that it is administered by the IRS all but ensures there is going to be poor monitoring of the money going out the door, says Vanessa Brown Calder, a housing policy expert with the Cato Institute.

"When you have a really complicated program, it requires a lot of monitoring to make sure that abuse isn't happening, because there are so many pieces moving, so many people involved," Calder tells *Reason*. "Building housing is not part of the IRS's mission. They don't have the capacity to monitor housing, nor do they have the interest to monitor LIHTC housing costs."

According to the latest GAO report, the IRS requires only that developers report high-level data on how much they pay contractors working on their projects, which leaves open the "risk of unscrupulous developers, contractors, and subcontractors inflating costs and obtaining excess program resources for personal financial gain."

The state HFAs also have a watchdog role to play when handing out LIHTC credits to developers, but they too have performed poorly. The latest GAO report looked in depth at twelve state HFAs, finding that only five required additional information on contractor costs over and above the minimal reporting that the IRS requires.

Given that these HFAs are often run by political appointees, or even by partisan elected officials in some states, there is an incentive to use LIHTC funds as a tool of political patronage.

Last year, the *Sacramento Bee* reported that California treasurer John Chiang—who sits on the three-member board that administers California's LIHTC funds—had voted to award millions in LIHTC credits to developers that had also given tens of thousands of dollars to his gubernatorial campaign.

A 2016 study of LIHTC found "a modest relationship between partisan loyalty and housing investment," finding that "Democratic governors steer tax credits to areas of core support, but only where the governor exercises a high level of control over the state's LIHTC-allocating agency."

In keeping with its hands-off approach to the program, the IRS has done remarkably little to supervise the activities of these HFAs. A GAO report from 2015 found that of the 56 agencies in the country that award LIHTC credits, the IRS had audited only seven in the 30-year history of the program.

While a skeptic of federal housing aid, Calder suggests that replacing LIHTC with a program that simply gives vouchers to low-income tenants would making monitoring for fraud easier and be more efficient in reducing rents.

The GAO recommendations were more marginal still, suggesting that the IRS require more information about construction costs from contractors, and that Congress appoint a specific agency (potentially HUD) to collect and review data from the LIHTC program.

Even these reforms are unlikely to come to pass. The IRS rejected all GAO recommendations that it step up its monitoring of the LIHTC program. Congress, meanwhile, has done little to increase oversight while voting back in March to increase funding for the program.