

Office of Inspector General



Office of Investigation

Detecting, Preventing, and Reporting FRAUD

**Guidelines for Public Housing Authorities
to Take Charge and Make the Difference**

White-collar crime in public housing authorities (PHAs) has the same devastating effect as violent crime: the residents are victims and HUD programs are abused. All too often, victims are at the mercy of the crime and the criminal(s) who inflict financial pain, suffering, and conflict. As such, the HUD Office of Investigation in the Office of Inspector General (OIG) wants to partner with PHAs to actively take charge in detecting, preventing and reporting FRAUD so that together, **WE CAN MAKE THE DIFFERENCE**. The OIG is fighting back with the help of PHAs to stop the financial assault on PHA residents and the HUD programs that are designed to help them.

Problem

Crimes such as bribery, kickbacks, bid rigging, embezzlement, and false claims can occur in contracting and procurement programs of any organization. At PHAs, these crimes ultimately affect the tenants because funds intended to improve their living conditions are diverted for the personal gain of others. In order to prevent such occurrences, it is essential that PHA officials develop internal controls to ensure that such activities do not occur within their organizations. Additionally, the issue of tenants who underreport their income or in any way submit false statements to HUD must also be addressed.

Objective

PHA management needs to:

Create an environment in which PHA employees understand that dishonest acts will be detected and promptly addressed; and

Send a message that it will aggressively seek out possible fraudulent conduct, instead of waiting for instances to come to its attention.

To accomplish this objective, PHAs need to adopt or update and aggressively implement a formal Fraud Policy. This Policy should establish how dishonest activity will be handled, including terminating employment and reporting the matter to law enforcement authorities.

Definitions

Fraud is defined as the intentional, false representation or concealment of a material fact for the purpose of inducing another to act on it to his or her injury.

A Fraud Policy specifies what an organization does to reduce fraud, how fraud matters are handled and what action is taken as a result of an investigation.

A Fraud Policy is *not* intended to cover administrative matters such as time and attendance problems or minor acts of insubordination. Such matters should be resolved within the PHA through the initiation of disciplinary measures where appropriate.

Commitment by Management to Fraud Prevention

Fraud prevention and the fight against fraud cannot be left to Auditors and Investigators alone. Management must make a positive commitment to fraud prevention and detection. Experts agree that it is easier to prevent fraud than to detect it. Fraud prevention is based on increasing an awareness that potential perpetrators will be detected if they commit misdeeds.

Many frauds are committed against organizations by employees who feel they were treated unfairly, did not receive proper compensation or promotions, had a supervisor who was difficult to deal with, feared being terminated, or were bored with their jobs. Even honest employees, when faced with pressure and perceived opportunity, may rationalize a dishonest act. Tenants commit fraud by submitting false statements to HUD which enable them to receive overpayments of subsidies or subsidies to which they are not eligible.

Fraud can be reduced, but not eliminated, by hiring honest people, establishing good personnel policies and procedures, better tenant pre-screening, and strict certification procedures.

Increasing the perception of detection might be the most effective fraud prevention method. Controls, for example, do little good in forestalling theft and fraud if those who may be inclined to commit fraud do not know that controls are in place. In the audit profession, this means letting employees,

managers, executives, and tenants know that Auditors are actively seeking out information concerning internal theft. In the criminal investigation profession, this means Special Agents will use those tools that will allow for swift prosecution of all violators and will result in the imposition of the maximum jail time and payment of restitution, fines, and penalties to the fullest extent of the law.

Management is responsible for the detection and prevention of fraud. For fraud to be minimized, top management must set the proper tone. Unless management sets an example and advises employees of what is acceptable and unacceptable, fraud will be more likely to occur. If employees see management being dishonest or rationalizing improper behavior, they will attempt to justify dishonest acts of their own. The two most important elements of encouraging honesty in others are: (1) properly modeling honest behavior (setting a good example); and (2) properly labeling actions as acceptable or unacceptable.

The best source of information regarding fraud and abuse within an organization is its employees. An organization needs to develop a mechanism whereby employees' complaints are properly investigated. The establishment and adoption of a Fraud Policy within an organization emphasizes the importance that the organization places on combating fraud.

Components of a Fraud Policy

A comprehensive Fraud Policy should contain the following components:

> Policy Statement

The policy should provide that management is responsible for preventing, detecting, and reporting fraud, and require each member of the management team to be familiar with the types of signals suggesting possible fraud within his or her scope of responsibilities. The policy statement should also state who is in charge of investigating suspected irregularities.

> Scope of Policy

This area of the Fraud Policy sets forth what constitutes

fraudulent activities and the fact that the policy covers everyone from management to employees.

> **Actions Constituting Fraud and Related Criminal Activities**

This segment sets forth examples of the most serious of these activities:

Bribery or kickbacks

False claims or bid rigging

Theft, embezzlement, or other misapplication of funds or assets

Forgery or alteration of documents

Impropriety with respect to reporting financial transactions

Profiting on insider knowledge

Destruction or concealment of records or assets

Tenant underreporting of income

> **Reporting Suspected Fraud**

The policy should state that where fraud or related criminal activity is suspected, it should be reported to the HUD OIG Hotline or the Special Agent-in-Charge of the Region that has jurisdiction in your state. (A complete listing of the OIG Offices of Investigation is included at the end of this pamphlet.)

> **Other Irregularities**

This section covers allegations of personal improprieties or other irregularities not constituting fraud, such as drug abuse, vandalism, littering, disturbing the peace, or other such public nuisances or criminal activity, and should state that these matters should be resolved by management.

> **Confidentiality**

This section provides that any investigation resulting from suspected irregularities will not be disclosed to outsiders, except to the appropriate law enforcement authorities. It also provides that management will not retaliate against employees who report either fraudulent or non-fraudulent irregularities.

> **Authorization for Investigation**

This section should advise that the person in charge of

the PHA's internal investigation has the authority to take control of and examine records.

> Reporting Procedures

This section states that employees suspecting fraud should report it and not attempt to conduct an investigation themselves. It also states that management and others should refrain from discussing the allegations with anyone other than those with a legitimate need to know.

> Termination

This section states that any recommendations to terminate employees should be reviewed by counsel and management.

Distribution

Upon adoption, PHAs should provide a copy of the Fraud Policy to all employees, board members, Resident Management Corporations, and the appropriate HUD Field Office. Anti-fraud posters should be displayed in common areas. A copy of this pamphlet will be available on the Internet. The OIG Internet address is <http://www.hud.gov/oigindex.html>

Information on a Fraud Policy

More information concerning fraud prevention and detection is contained in the Fraud Examiners Manual, Revised Second Edition, published by the Association of Certified Fraud Examiners, 716 West Avenue, Austin, TX, 78701. For information about the Association, please write to the address above or call them at (800) 245-3321.

The Association has authorized HUD OIG to distribute copies of its sample Fraud Policy. If you would like a free copy of the Policy or further information about developing a Fraud Policy, contact the Office of Inspector General at the following address:

U.S. Department of Housing and Urban Development
Office of Inspector General
Office of Management and Policy, Room 8254
451 7th St., SW
Washington, DC 20410-4500
(202) 708-0006

(map inserted on pages 7-9)

REGION 10 – Seattle, WA
HUD OIG Investigation
Deputy Special Agent In Charge
909 First Street, Room 125
Seattle, WA 98104-1000
(206) 220-5380



REGION 8 – Denver, CO
HUD OIG Investigation
Deputy Special Agent In Charge
P. O. Box 25327
Denver Federal Center, Bldg. 16
Denver, CO 80225
(303) 236-1450



HUD O

REGION 9 – Los Angeles, CA
HUD OIG Investigation
Special Agent In Charge
AT&T Center
611 W. 6th Street, Room 3700
Los Angeles, CA 90041
(213) 894-0219



REGION 6 – Arlington, TX
HUD OIG Investigation
Special Agent In Charge
2201 East Lamar Blvd., Room 275
Arlington, TX 76006
(817) 652-6980

IG Regions

REGION 5 - Chicago, IL
 HUD OIG Investigation
 Special Agent In Charge
 Metcalfe Federal Building
 77 West Jackson Blvd, Room 2646
 Chicago, IL 60604-3507
 (312) 353-4196

REGION 2 - New York, NY
 HUD OIG Investigation
 Special Agent In Charge
 26 Federal Plaza, Room 3437
 New York, NY 10278-0068
 (212) 264-8000

REGION 1 - Boston, MA
 HUD OIG Investigation
 Special Agent In Charge
 Thomas P. O'Neill, Jr. Federal Bldg.
 10 Causeway Street, Room 360
 Boston, MA 02222-1092
 (617) 994-8450

REGION 3 - Philadelphia, PA
 HUD OIG Investigation
 Special Agent In Charge
 Wanamaker Building
 100 Penn Square, Room 1005
 Philadelphia, PA 19107-3380
 (215) 656-3410

HEADQUARTERS
 HUD OIG Office of Investigation
 Director, Criminal Investigation Division
 451 Seventh Street, SW, Room 8274
 Washington, DC 20410-0001
 202-708-0390

REGION 4 - Atlanta, GA
 HUD OIG Investigation
 Special Agent In Charge
 Richard B. Russell Federal Bldg.
 75 Spring Street, Room 346
 Atlanta, GA 30303-3388
 (404) 331-3359

REGION 7 - Kansas City, KS
 HUD OIG Investigation
 Special Agent In Charge
 Gateway Tower II
 400 State Avenue, Room 1015
 Kansas City, KS 66101-2406
 (913) 551-5866



If you are aware of **FRAUD, WASTE, and ABUSE** in HUD programs and operations, report it to HUD's OIG Hotline!

What Kinds of Things Should You Report?

YOU should report mismanagement or violations of law, rules, or regulations by HUD employees or program participants. Your complaint will be kept confidential if it is received on the phone, through the mail, or in person. We cannot guarantee confidentiality if you send your complaint by e-mail. Laws protect you from reprisals (any action taken against you because you filed this complaint).

You May Submit Your Complaint One of 4 Ways:

- **e-mail:** We know that filing a complaint is very serious, so we want to be sure that you understand that if you send your complaint by e-mail, through the Internet, it is possible – though unlikely – that others may see it as it is transmitted. The HUD OIG cannot guarantee confidentiality. If it is important to you that no one sees your complaint – other than OIG staff – then you should use the phone or send it by mail. Remember: if you submit your complaint online (through e-mail), it is possible - though unlikely – that others could read it since the Internet is not secure. If you decide to use e-mail, you are agreeing to waive confidentiality.

Send e-mail complaints to: hotline@hudoig.gov

- **By Phone:** Call toll free: 1-800-347-3735
TDD: 202-708-2451, or
1-800-304-9597
- **By Fax:** 202-708-4829
- **By Mail:**
Department of Housing & Urban Development
Office of Inspector General Hotline Manager
400 Virginia Avenue, SW, Suite 120
Washington, DC 20024