



## **DEVELOPING A FRAUD POLICY**

This bulletin discusses best practices for a fraud policy that boards of commissioners should consider adopting to strengthen their ability to prevent, and detect fraud, waste or abuse, and act when are suspected.

### **WHY A FRAUD POLICY**

Just as the police and courts cannot make arrests or punish the guilty without their own policies to implement laws, public housing agencies (PHAs) cannot be effective if they do not have the foundation of a fraud policy from which to support needed actions. Some may think of fraud only in terms of tenant misrepresentations. However, this is not inclusive of all frauds that can occur at an agency. Crimes, such as bribery, kickbacks, bid rigging, embezzlement, and false claims can occur in 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. As overseers of a PHA, you are responsible for promoting the integrity of the entire staff as well as tenants.

### **IMPLEMENTING A FRAUD POLICY**

To prevent such occurrences, it is essential that PHA officials develop internal controls to ensure that such activities do not occur within their organizations. This effort starts with a strong fraud policy.

Following are the steps for implementing a strong policy:

1. Elements of a strong policy
2. Education of staff
3. Visibility to all
4. Verification procedures
5. Monitoring procedures

**Elements of a strong policy:** There must be a local fraud policy, in writing and formally adopted that prohibits fraud, explains the actions that will be taken to prevent and detect fraud, and defines what sanctions will be administered when wrong doing is established.

A good policy will:

- **Define fraud.**
- **List examples of offenses** that are prohibited.
- **Require employees and contractors to report suspected fraud.**
- **State the PHA's commitment to investigate.** If the authority will investigate tenant misrepresentations, it should outline in its policy who will conduct the investigation and that he or she has the authority to examine records, interview subjects and witnesses, and prepare reports for PHA management.



While we encourage PHAs to develop in-house capability to administratively handle all but the most serious tenant fraud (bulletins and training are forthcoming on this matter), the PHA must follow any State and Federal laws regarding criminal referrals.

The PHA should send a copy of the most serious violations to the HUD OIG hotline or the local special-agent-in charge.

- **Include confidentiality and safeguarding of information.** This section provides that any investigation resulting from suspected irregularities will not be disclosed to outsiders, except to the appropriate law enforcement authorities.
- **Prohibit retaliation for whistleblowing.** This section provides that management will not retaliate against employees who report either fraudulent or non-fraudulent irregularities. There may be State or local law that needs to be incorporated
- **Follow the PHA's due process and grievance procedures** for remedial actions.
- **Define the range of administrative penalty or corrective action** that is appropriate to the seriousness of the offense.

**Education:** Commissioners, executive directors and PHA staff need to know the red flags of fraud, and understand how fraud, can occur so they can recognize the signs of possible frauds. Management is responsible for setting the "tone from the top" by:

- Creating an environment in which PHA employees understand that dishonest acts will be detected and promptly addressed; and
- Sending a message that the PHA will aggressively seek out possible fraudulent conduct, instead of waiting for instances to come to its attention.

**Visibility:** 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 for tenants. The fraud policy may

be publicized using speeches, memorandums, newsletters, etc. Distributing the fraud policy and bulletins from OIG and HUD, using email and flyers, and having guest speakers on fraud or sound management controls, are good methods of increasing awareness and watchfulness.

**Verification:** The fraud policy should support strong and effective procedures by stating that forms and other methods used to verify tenant eligibility must be strictly followed. Ensure that PHA forms contain certifications at the bottom, signed by tenants, which acknowledge that the statements are true and complete.

**Monitoring:** Strong internal controls employ two types of monitoring. Continuous monitoring is the day-to-day checks made by all employees in the course of their jobs that identify signs of inaccurate or fraudulent transactions.



Having an internal audit department is another way of creating a quality control monitoring function. It does not have to be anything formal; it could be limited to one or two employees performing this function

A good fraud policy requires that both types of monitoring be set up and completed.

There is also quality control monitoring which uses an independent person or group to periodically spot check on high-risk areas to not only look for red flags of fraud, but to ensure that the work is done efficiently and effectively.

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**The U.S. Department of Housing and Urban Development (HUD) Office of Inspector General (OIG) is the Department's law enforcement and auditing arm and is responsible for investigating complaints of fraud, waste and mismanagement in HUD funded programs.**

## **REPORTING FRAUD**

**Serious allegations of fraud should be reported to your local HUD Office of Inspector General or to the HUD OIG Hotline at:**

<http://www.hudoig.gov/report-fraud>