

U.S. Department of Housing and
Urban Development

Guidelines for Public Housing Authorities to Prevent, Detect and



Report Fraud

An Operation Safe Home Initiative

Operation Safe Home was initiated in 1994 to combat crime affecting U.S. Department of Housing and Urban Development (HUD) housing. Fraud in public housing programs was targeted as one of the three types of wrongdoing presenting particularly high risks to the well-being of both the residents and the programs.

As such, the Office of Inspector General (OIG) conducted intensified reviews called "probes" at selected public housing authorities (PHAs) throughout the country to detect and identify fraud and corruption in the administration of public housing programs. The probes showed that many of the PHAs visited were operating in accordance with HUD regulations and procedures. However, at other PHAs, the probes identified various types of fraud, waste and abuse.

In addition to the probes, HUD OIG audits and investigations continue to find instances of fraud in the administration of public housing programs.

Problem

Crimes such as bribery, kickbacks, bid-rigging, embezzlement, and false claims are possible in the areas of contracting and procurement 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. In order to prevent such occurrences, it is essential that PHA officials develop internal controls to ensure that such activity does not occur within their organization.

Objective

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 a formal Fraud Policy. The 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 upon 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 upon increasing the perception of detection. Potential perpetrators must perceive that they 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.

Fraud can be reduced, but not eliminated, by hiring honest people and establishing good personnel policies and 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 their presence is not known by those at risk. In the audit profession, this means letting employees, managers, and executives know that auditors are actively seeking out information concerning internal theft.

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 teaching honesty to 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. No absolute assurance can be given that fraud exists or does not exist because fraud remains concealed until some event or transgression uncovers its possible existence. However, the establishment and adoption of a Fraud Policy within an organization creates a higher anti-fraud profile.

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 each member of the management team should be familiar with the types of signals suggesting possible fraud within his or her scope of responsibilities. The policy statement also states 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

> Reporting Suspected Fraud

Where fraud or related criminal activity such as described above is suspected, the policy should state that it should be reported to the HUD OIG Office of Investigation in the District that has jurisdiction in your state and to other appropriate federal, state and local law enforcement authorities.

[A complete listing of the OIG Office of Investigation District Offices is included at the end of this pamphlet.]

> Other Irregularities

This section covers allegations of personal improprieties or other irregularities not constituting fraud 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 whoever is 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 an investigation. 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 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/oig/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 wish 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 Street, S.W.
Washington, D. C. 20410-4500

Telephone (202) 708-0006
FAX (202) 708-4837

HEADQUARTERS AND DISTRICT OFFICES

Department of Housing and Urban Development
Office of the Inspector General
Room 8256
451 7th Street, S.W.
Washington, D. C. 20410-4500

Office of Audit (202) 708-0364
Office of Investigation (202) 708-0390

New England District
Thomas P. O'Neill, Jr. Federal Bldg.
10 Causeway Street
Boston, MA 02222-1092

District Inspector General for Audit
(617) 565-5259
Special Agent in Charge
(617) 565-5293

Connecticut
Maine
Massachusetts
New Hampshire
Rhode Island
Vermont

New York/New Jersey District
26 Federal Plaza
New York, NY 10278-0068

District Inspector General for Audit
(212) 264-4174
Special Agent in Charge
(212) 264-8062

New Jersey
New York

Mid-Atlantic District
The Wanamaker Bldg.
100 Penn Square East
Philadelphia, PA 19107-3390

District Inspector General for Audit
(215) 656-3401
Special Agent in Charge
(215) 656-3410

Delaware
Maryland
Pennsylvania
Virginia
West Virginia

Capital District
451 7th Street, S.W.
Washington, D. C. 20410-4500

District Inspector General for Audit
(202) 708-0351
Special Agent in Charge
(202) 708-2650

Southeast/Caribbean District
Richard B. Russell Federal Bldg.
75 Spring Street, S.W.
Atlanta, GA 30303-3388

District Inspector General for Audit
(404) 331-3369
Special Agent in Charge
(404) 331-3359

Midwest District
Ralph H. Metcalfe Federal Bldg.
77 West Jackson Blvd.
Chicago, IL 60604-3507

District Inspector General for Audit
(312) 353-7832
Special Agent in Charge
(312) 353-4196

Southwest District
1600 Throckmorton
P.O. Box 2905 (for Audit)
P.O. Box 1839 (for Investigation)
Fort Worth, TX 76113-2905

District Inspector General for Audit
(817) 978-9309
Special Agent in Charge
(817) 978-9310

District of Columbia
metro area

Alabama
Florida
Georgia
Kentucky
Mississippi
North Carolina
Puerto Rico
South Carolina
Tennessee
Virgin Islands

Illinois
Indiana
Michigan
Minnesota
Ohio
Wisconsin

Arkansas
Louisiana
New Mexico
Oklahoma
Texas

Great Plains District
Gateway Tower II
400 State Avenue
Kansas City, KS 66101-2406

District Inspector General for Audit
(913) 551-5870
Special Agent in Charge
(913) 551-5867

Iowa
Kansas
Missouri
Nebraska

Rocky Mountains District
First Interstate Tower North
633 - 17th Street
Denver, CO 80202-3607

District Inspector General for Audit
(303) 672-5452
Special Agent in Charge
(303) 672-5449

Colorado
Montana
North Dakota
South Dakota
Utah
Wyoming

Pacific/Hawaii District
Phillip Burton Federal Bldg and U.S. Courthouse
450 Golden Gate Avenue
P. O. Box 36003
San Francisco, CA 94102-3448

District Inspector General for Audit
(415) 436-8101
Special Agent in Charge
(415) 436-8108

Arizona
California
Hawaii
Nevada

Northwest/Alaska District
Seattle Federal Office Bldg.
909 1st Avenue
Seattle, WA 98104-1000

District Inspector General for Audit
(206) 220-5360
Special Agent in Charge
(206) 220-5380

Alaska
Idaho
Oregon
Washington

**Report fraud, waste
and mismanagement
in HUD programs and
operations**

**Call the HUD
Office of Inspector General
Special Agent in Charge
at the
District Office responsible
for your State**

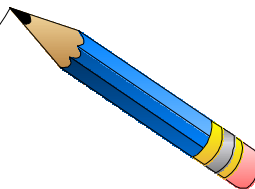


OR

Send written information to:

The HUD OIG
District Office
responsible for your State

See Listing in this
document .



for TDD call
1-800-304-9597

You may request confidentiality
or remain anonymous.