



**U.S. Department of Housing and Urban Development**

**Departmental Fraud Risk  
Management Policy  
(2022.1)**

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# Table of Contents

- I. Policy**.....3
- II. Authorities**.....3
- III. Relationship to Standards of Conduct and other HUD Policies** .....4
- IV. Relevant Definitions:** .....4
- V. Roles and Responsibilities** .....5
  - A. Senior Leadership** .....5
  - B. Office of the Chief Financial Officer – Chief Risk Officer (CRO)**.....5
  - C. Risk Management Council (RMC)** .....6
  - D. Office of the Chief Financial Officer – Financial Management (OCFO/FM):**.....6
  - E. Senior Program and Functional Management** .....7
  - F. Office of Inspector General** .....7
  - G. Office of General Counsel (OGC)**.....8
  - H. Office of the Chief Human Capital Officer (OCHCO)** .....8
  - I. Office of the Chief Procurement Officer (OCPO)**.....8
  - J. All HUD Personnel**.....9
- VI. Fraud Risk Management Program** .....9
- VII. Fraud Risk Assessments**.....9
- VIII. Fraud Prevention and Detection Controls:** .....10
  - A. Fraud Prevention**.....10
  - B. Fraud Detection** .....10
  - C. Data Analytics**.....11
- IX. Fraud and Misconduct Reporting :**.....11
- X. FRM Evaluation and Monitoring:** .....11

# **U.S. Department of Housing and Urban Development (HUD)**

## **FRAUD RISK MANAGEMENT POLICY**

- I. Policy:** The U.S. Department of Housing and Urban Development (HUD) is committed to upholding the highest level of ethical standards in all areas of its operations. As stewards of the taxpayers' interests, all personnel have a duty to help create and maintain a culture of integrity and opposition to fraud, waste, abuse, and mismanagement, inclusive of full time and part time employees, contractors, grantees, and beneficiaries. The Department objective is to eliminate or reduce fraud events to the lowest extent possible to ensure the most effective and efficient use of funds and resources.

This Policy applies to all personnel, who are expected to be familiar with the types of fraud or misconduct that could adversely impact HUD's mission and report suspected or known instances to the Office of Inspector General (see Section VIII of this document for more information). Indications of fraud or misconduct within HUD or committed by external parties (e.g., grantees, contractors, vendors, beneficiaries) will be reported, vigorously investigated, and addressed in a consistent manner by the Office of Inspector General.

This Fraud Risk Management Policy (FRM Policy) sets forth the standards for preventing, detecting, and responding to fraud and related misconduct pertaining to HUD programs and operations and promotes consistent adoption across the Department. The FRM Policy pertains to all suspected incidents, irregularities, and improprieties related to fraud, waste, abuse, and mismanagement. The policy also pertains to violations of applicable federal laws, regulations, or HUD requirements that are caused either by trusted insiders and/or external parties.

- II. Authorities:** As required by the Payment Integrity Information Act of 2019 (PIIA), the Office of Management and Budget (OMB) has established guidelines (see Appendix C of OMB Circular A-123) requiring agencies to establish financial and administrative controls to identify and assess fraud risks and design and implement control activities to prevent, detect, and respond to fraud, including improper payments. PIIA and OMB Circular A-123 both require federal agencies to include the following:

- Conduct an evaluation of fraud risks and using a risk-based approach to design and implement financial and administrative control activities to mitigate identified fraud risks;
- Collect and analyze data from reporting mechanisms on detected fraud to monitor fraud trends and using that data and information to continuously improve fraud prevention controls; and
- Use the results of monitoring, evaluation, audits, and investigations to improve fraud prevention, detection, and response.

Further, OMB Circular A-123 mandates that agencies implement the leading practices described in GAO's *A Framework for Managing Fraud Risks in Federal Programs* (GAO Fraud Risk Framework). The GAO Fraud Risk Framework describes the four phases of the FRM lifecycle:

- **Commit** to combating fraud at all levels of the agency by creating a culture and structure conducive to FRM
- **Assess** fraud risks on a regular basis to determine a fraud risk profile
- **Design and Implement** a fraud response strategy, with specific control activities to address risks that are identified as part of agency fraud risk assessments
- **Evaluate** FRM outcomes using risk-based monitoring and analysis and
- **Adapt** the FRM approach to improve fraud risk management efforts

OMB Circular No. A-123 further requires agencies to report on actions taken to manage fraud risks to their governance structure and incorporate an evaluation of fraud risks into their annual Enterprise Risk Management risk profile process. Principle 8 of GAO's *Standards for Internal Control in the Federal Government* (GAO Green Book) provides further guidance on evaluating fraud risk factors and the potential for fraud when identifying, analyzing, and responding to risks.

It is the responsibility of all within HUD to manage fraud risk and promote cooperation with reviews, audits, and investigations regarding access to data, information, and personnel as needed in line with OMB Memo M-22-04, entitled "Promoting Accountability through Cooperation among Agencies and Inspectors General" (or as updated and when applicable).

**III. Relationship to Standards of Conduct and other HUD Policies:** The FRM policy serves as a complement to and does not replace or rescind other Departmental policies and procedures that exist to promote integrity in HUD business practices and compliance with laws, rules, and regulations. All HUD personnel should be familiar with the policies and abide by the procedures that provide guidance over the appropriate subjects and ensure that they are routinely followed.

**IV. Relevant Definitions:**<sup>1</sup>

**Abuse:** Behavior that is deficient or improper when compared with behavior that a prudent person considers reasonable and necessary in operational practice given the facts and circumstances.

**Fraud:** Any intentional act or omission designed to deceive others, resulting in either HUD suffering a loss or the perpetrator achieving a gain.

**Mismanagement:** Creating a substantial risk to an agency's ability to accomplish its mission.

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<sup>1</sup> Fraud Risk Management Guide (Committee of Sponsoring Organizations of the Treadway Commission, 2016), and Fraud, Waste, Abuse, and Mismanagement (GAO)

## **Stakeholders**

- Full time and part time employees
- Contractors
- Grantees
- Sub-grantees/Beneficiaries
- Issuers

**Retaliation:** Direct or indirect detrimental action recommended, threatened, or taken, because an individual provided a good faith report of fraud or mismanagement to the agency or cooperated in assigned fact finding activities.

**Waste:** The act of using or expending/mismanaging resources carelessly, extravagantly, or with no purpose.

- V. **Roles and Responsibilities:** While certain individuals may be formally delegated specific duties related to FRM in their position descriptions, the responsibility for managing fraud risks resides at all levels of the agency. All personnel must be aware of their roles to mitigate, detect, and respond to fraud risks and misconduct at HUD, which are summarized in the section below.

### **A. Senior Leadership:**

- Designate the Chief Risk Officer, who has the overall responsibility for the coordination and implementation of HUD's FRM Program
- Ensure that FRM activities are in place throughout the Department
- Exhibit and endorse ethical behaviors and commitment to combating fraud, waste, abuse, and mismanagement throughout the Department
- Foster a risk culture that promotes transparency and accountability and prohibits whistleblower retaliation
- Create "Tone at the Top" to cultivate a risk culture conducive to FRM
- Encourage the reporting of fraud risks at HUD
- Empower management to take ownership of fraud risks and respond in an appropriate and swift manner
- Ensure trainings that help employees identify and assess various types of fraud, and the processes for reporting them are complete

### **B. Office of the Chief Financial Officer – Chief Risk Officer (CRO):**

- Overall responsibility for the design, implementation, and leadership of the Fraud Risk Management Program
- Maintain an enterprise fraud risk profile and Departmental fraud risk strategy
- Develop and maintain a repository of fraud risks and fraud risk management activities occurring at HUD
- Support development and integration of Departmental and office level fraud risk appetite and tolerance

- Oversee the fraud risk assessment process for HUD program and functional areas, providing guidance and support to offices as needed
- Oversee the evaluation of Program and Support office fraud risk controls and coordinate identified risks and vulnerabilities with the RMC and other stakeholders
- Oversee the implementation of this Fraud Policy within HUD programs and offices and evaluate their maturity against leading FRM practices
- Document and report risks identified by senior program and functional management as a part of the enterprise risk profile refresh and statement of assurance
- Support the development of a response plan to document procedures for reporting allegations of fraud, waste, abuse, and mismanagement
- Oversee FRM communications strategy and produce FRM specific trainings and key messages
- Monitor and evaluate FRM culture and adapt FRM activities as needed

**C. Risk Management Council (RMC):**

- Act as the risk governance body that oversees fraud risk management activities throughout the Department, including the FRM Program, and understand the fraud risks that could affect HUD's mission
- Delegate FRM roles and responsibilities for the Risk Officer community
- Facilitate the assessment of fraud risks to inform the development of an enterprise fraud risk profile and departmental fraud risk management strategy
- Facilitate the evaluation of entity-level fraud risk controls, including the risk for management override
- Facilitate the establishment of enterprise fraud risk appetite/tolerance
- Ensure that fraud risk has been considered as part of program and functional management's enterprise risk management activities
- Facilitate the integration of fraud risk considerations into agency strategy, performance, and budget processes
- Oversee the development of a fraud risk response plan
- Promote cooperation with audits and investigations regarding access to data, information, and personnel as needed

**D. Office of the Chief Financial Officer – Financial Management (OCFO/FM):**

- Promote fiscal accountability, integrity, and fraud risk management through a strong governance system, agency-wide coordination and collaboration, and effective training on OMB Circular A-123
- Align financial management activities to HUD's Enterprise Risk Management governance structure
- Align internal controls activities to support proper oversight and HUD assurance reporting

- Oversee, manage, and execute OMB Circular A-123 program in collaboration with the program and support offices to assess effectiveness of HUD's internal controls and Payment Integrity Information Act implementation
- Collaborate with process owners on the design, implementation, and validation of internal controls to detect and manage fraud risks

**E. Senior Program and Functional Management:**

- Design, implement, and validate internal controls to mitigate fraud risks
- Demonstrate and endorse ethical behaviors and commitment to combating fraud
- Cultivate a risk culture that promotes transparency and accountability and prohibits whistleblower retaliation
- Maintain an open-door policy that encourages the reporting of fraud risks and a timely and appropriate response
- Communicate clear organizational roles and responsibilities to personnel, including personnel responsible for specific FRM activities
- Identify risks associated with financial reporting and internal controls
- Conduct on-site and remote monitoring over program areas, including counterparties administering HUD funds (e.g., grantees) and maintain documentation
- Require grantee to maintain and document obligations expenditures, and payments of funds for HUD supported activities
- Perform regular fraud risk assessments to inform a HUD Departmental fraud risk profile
- Utilize Departmental-level fraud risk appetite and tolerance to inform the development of appetite and tolerance thresholds for the office
- Review, enhance, and evaluate internal controls to reduce fraud risk exposure, mitigate identified fraud risks, and remain within management's fraud risk tolerance parameters
- Integrate fraud risk considerations into the office's strategy, performance, and budget processes
- Establish, oversee, and communicate the office's fraud risk escalation procedures and fraud risk tolerance(s) to personnel
- Educate personnel and counterparties on fraud reporting mechanisms, including the requirement to report suspected fraud to the OIG Hotline
- Leverage data analytics capabilities to detect and monitor emerging fraud trends and continuously improve fraud prevention controls

**F. Office of Inspector General:**

- Manage OIG Hotline, to include whistleblower complaints, and broadcast contact information to the general public
- Perform audits, evaluations, investigations, and other reviews of HUD programs and operations

- Investigates allegations of fraud and refers matters to the agency or prosecutors for disciplinary and/or prosecutorial action, as appropriate
- Publish press releases on adjudicated fraud investigations, consumer advisories on emerging fraud schemes, industry advisories on leading FRM practices, and information on whistleblower protections
- Assist with HUD anti-fraud trainings and provide insight into noteworthy fraud schemes and trends
- Report on financial value of fraud recoveries in OIG Semiannual Reports

**G. Office of General Counsel (OGC):**

- Disseminate Standards of Conduct and other Ethics policies and Department-wide ethics trainings as they become available
- Conduct intake and response to questions on potential ethics violations
- Perform reviews on behalf of HUD programs to verify that funds are administered in accordance with federal guidelines and requirements
- Provide counsel and perform affirmative litigation and administrative action, including imposing civil monetary penalties, initiating suspensions and debarments, recovering funds under the Program Fraud Civil Remedies Act, referring criminal or civil investigations to other authorities (such as HUD OIG)
- Assist prosecutorial authorities on legal matters, including Qui Tam and False Claims actions handled by the Department of Justice (DOJ)

**H. Office of the Chief Human Capital Officer (OCHCO):**

- Identify risks associated with operation of the program office, management reporting, and internal controls
- Design, implement, and validate internal controls designed to mitigate identified fraud risks
- Manage the hiring process, including the screening of candidates
- Oversee performance management, including annual review process and the initiation of performance improvement plans
- Perform exit interviews to identify potential concerns regarding misconduct and escalate indecorous matters as identified
- Maintain departmental nepotism policy to deter real or perceived conflicts of interests for personnel appointment, employment, promotion, and advancement
- Administer performance-based disciplinary measures, including termination of employment, suspension, or other disciplinary actions

**I. Office of the Chief Procurement Officer (OCPO):**

- Identify risks associated with operation of the program office, management reporting and internal controls
- Design, implement, and validate internal controls designed to mitigate identified fraud risks



- Manage the day-to-day procurement operations in accordance with Federal Acquisition Regulation (FAR)
- Maintain and enforce compliance with HUD Acquisition Policy and Procedures
- Coordinate with the CRO to educate personnel and counterparties on fraud schemes and how to identify procurement fraud indicators
- Communicate whistleblower protections and process for reporting suspected procurement fraud to OIG for investigation
- Protect confidential pre-bid information during the pre-solicitation phase
- Facilitate the creation of detailed scope-of-work, specific requirements, and qualifications in HUD's invitations to bid (ITB) during pre-solicitation phase
- Perform audits and desk reviews when directed by the Contracting Officer for circumstances that indicate that waste, mismanagement, or fraud may be present and refer matters to OIG when appropriate
- Perform technical analysis of proposals and pricing evaluations during bid solicitation
- Perform due-diligence and eligibility checks on suppliers for bid evaluation
- Respond to bidder with formal addendum during award phase and document and preserve correspondence and contract artifacts
- Require detailed invoice from contractors and subcontractors throughout contract administration

**J. All HUD Personnel:**

- Understand the types of fraud and mismanagement that can undermine HUD programs and be alert to fraud risk indicators and red flags
- Report concerns and suspicions of incidents of fraud and mismanagement to OIG for investigation
- Adhere to the Standards of Conduct and report potential ethics violations or questions to the Office of General Counsel
- Read, understand, and acknowledge HUD's FRM Policy, Standards of Conduct, on an annual basis
- Attend ethics and fraud risk trainings
- Cooperate and participate in fraud risk assessments, investigations, and internal and external audits

**VI. Fraud Risk Management Program:** In line with PIIA and OMB Circular A-123 requirements, HUD Management has overall responsibility for establishing internal controls to manage the risk of fraud. HUD's FRM Program is led by the CRO, who reports to the CFO on matters involving fraud risks. The FRM Program outlines governance, risk assessments, fraud prevention, detection and monitoring, and reporting for the Department through this Policy.

**VII. Fraud Risk Assessments:** HUD program and support offices must perform Fraud Risk Assessments of their program and functional areas to identify inherent fraud risks, consider the effectiveness of existing controls, score likelihood of occurrence and impact, and develop an

fraud risk management strategy to mitigate residual fraud risk exposure. The frequency at which fraud risk assessments are performed may vary based on the risk exposure of the program or function and will be determined at the discretion of HUD Program management. Both financial and non-financial fraud risks should be evaluated as part of these assessments, which will inform the development of a fraud risk profile. The types of fraud schemes considered should include corruption, asset misappropriation, financial statement frauds, and other non-financial fraud events (e.g., falsification of inspection records). HUD Program management retains primary responsibility for performing these fraud risk assessments, while the CRO will provide guidance and support on fraud and data analytics topics as requested.

### **VIII. Fraud Prevention and Detection Controls:**

**A. Fraud Prevention:** The processes and controls that deter fraud from occurring at the time of initial occurrence. Prevention is widely considered the more effective method of combating fraud, compared to detection, typically referred to as the pay-and-chase method.<sup>2</sup> Prevention controls can be overtly or covertly successful if they are implemented through visible activities such as establishing policies and procedures (overt controls) or through data analytics designed to prevent fraudulent transactions from being processed (covert controls).

As such, HUD program and support managers should mainly focus their FRM efforts on the design, implementation, and operation of fraud prevention controls. By employing fraud prevention techniques, including training and outreach, HUD can maintain fraud deterrence and increase the perception that fraud and misconduct will be detected and properly addressed. HUD management monitors fraud risk prevention controls for effectiveness in design and execution. To the extent practicable, HUD will utilize prevention controls in its business practices, including segregation of duties, physical and system access controls, approval protocols, along with policies and procedures, to prevent fraud incidents and address the risk for management override.

Training and communications on fraud risk activities are essential components of successful fraud prevention and should be deployed when appropriate. HUD Senior Leadership must foster a risk culture that embraces FRM and exhibits tone at the top attitudes. Both formal and informal training and communications should be put in place to promote understanding of ethical principles and fraud risk concepts within the HUD environment.

**B. Fraud Detection:** The activities and controls designed to uncover potential fraud schemes after the initial transaction or process has occurred. Compared with fraud prevention, detection is more reactive in nature, with fraud investigation and recovery activities occurring after the fact. Fraud detection can be specific control activities (policies and procedures) that identify attempted or existing fraudulent activity that

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<sup>2</sup> Pay-and-chase method: A practice where payments are made first and only in instances where reimbursement is determined later to be required is an effort made to recoup the funds paid out.

seeks to bypass HUD's prevention controls. Analysis of emerging potential or identified fraud schemes can be used to inform the ways in which HUD can strengthen its internal control structure to respond to residual risk and prevent breakdowns from occurring in the future. By engaging in fraud detection activities and encouraging the reporting of suspicions and allegations, HUD can reduce the cost, duration, and other impacts of the fraud schemes that do occur.

Management should communicate reporting procedures for suspicions of fraud and misconduct, including information on the HUD OIG Hotline, to personnel and counterparties to promote detection. The OIG hotline is available by phone from 8:00am to 4:00pm EST at 1-800-347-3735, via the website at <https://www.hudoig.gov/hotline/report-fraud>, and by email at [HOTLINE@hudoig.gov](mailto:HOTLINE@hudoig.gov).

HUD performs fraud detection activities by means of monitoring, inspections, desk reviews, and audits of its program and functional areas. To the extent practicable, HUD will limit lengthy advance notices when conducting these activities to mitigate fraud and concealment of the true state of operations, compliance, and reporting. When possible, HUD will employ a risk-based approach to its internal control assurance and fraud detection activities by focusing on testing the highest risk transactions, processes, and controls.

- C. **Data Analytics:** When it is applicable, HUD will utilize data analytics to enhance its fraud prevention and detection activities. A phased approach to data analytics will be deployed to encompass the full spectrum of analytic methods, striving for the use advanced techniques (e.g., predictive modeling and network analysis), while applying more traditional rules-based and anomaly detection methods when appropriate.

HUD FRM analytics will leverage institutional knowledge and subject matter expertise of HUD's processes, threats, and vulnerabilities to target the highest risk areas and develop customized data-driven fraud detection mechanisms across the Department. Data analytics should also be used to expand HUD's capability to evaluate risk across HUD programs and functions, enabling a comprehensive, department-wide view of fraud risk as it relates to grantees or other entities. Fraud detection models should be regularly monitored and updated to address the constant quantitative and qualitative evolving fraud landscape and to prevent fraudsters from circumventing the mechanisms that HUD deploys.

- IX. **Fraud and Misconduct Reporting** : HUD is committed to ensuring high ethical standards and conduct by its personnel at all levels of the Department. Employees must report suspicious and known incidents of fraud and misconduct to the OIG Hotline. HUD will create a culture that is free from retaliation and takes appropriate and prompt action when allegations of retaliation do occur.

- X. **FRM Evaluation and Monitoring**: To determine the effectiveness of FRM activities, HUD program and support managers will routinely evaluate existing fraud risk controls. Fraud risk

indicators should be developed and monitored to aid in identifying early signals of fraud risk exposure. When monitoring and evaluation efforts result in need for improvement or identification of emerging fraud risks and schemes, HUD will adapt its methodology of the FRM program. As part of this effort, the CRO will facilitate the monitoring of fraud risk mitigation strategies across the Department to determine if fraud risk control enhancements are required to reduce the risk exposure.