



PROTECTING YOUR ORGANIZATION AGAINST FRAUD

Special Agent Jamila Davis/Region 4 | February 2015



SECTION I

HUDOIG - Mission and Purpose

HUDOIG Mission

As the **Office of Inspector General (OIG)** for the U.S. Department of Housing and Urban Development (HUD), we remain an independent and objective organization, conducting and supervising audits, evaluations, and investigations relating to the Department's programs and operations. We promote economy, efficiency, and effectiveness in these programs and operations as we also **prevent and detect fraud, abuse, and mismanagement**. We are committed to keeping the HUD Secretary, Congress, and our stakeholders fully and currently informed about problems and deficiencies and the necessity for and progress of corrective action.



HUDOIG Values

- **Collaboration:** The commitment to work jointly with HUD, Congress, and our stakeholders for the benefit of all citizens.
- **Accountability:** The obligation and willingness to accept responsibility and account for our actions.
- **Integrity:** The firm adherence to high moral and professional standards, honesty, and fairness in all that we do. Acting with integrity is a core job responsibility for every employee.
- **Stewardship:** The careful and responsible management of that which has been entrusted to our care.
- **Diversity:** The promotion of high standards of equal employment opportunity for employees and job applicants at all levels so that our workforce is reflective of our Country's citizens



HUDOIG Vision

- To promote fiscal responsibility and financial accountability in HUD programs and operations,
- improve the execution of and accountability for grant funds,
- strengthen the soundness of public and Indian housing programs,
- protect the integrity of housing insurance and guarantee programs,
- assist HUD in determining whether it is successful in achieving its goals,
- look ahead for emerging trends or weaknesses that create risk and program inefficiencies,
- produce innovative work products that are timely and of high quality,
- benchmark best practices as a means to guide HUD, and
- have a significant impact on improving the way HUD does business.



Our Five Main Offices

Office of Audit

Office of Investigations

Office of Evaluations

Office of Legal Counsel

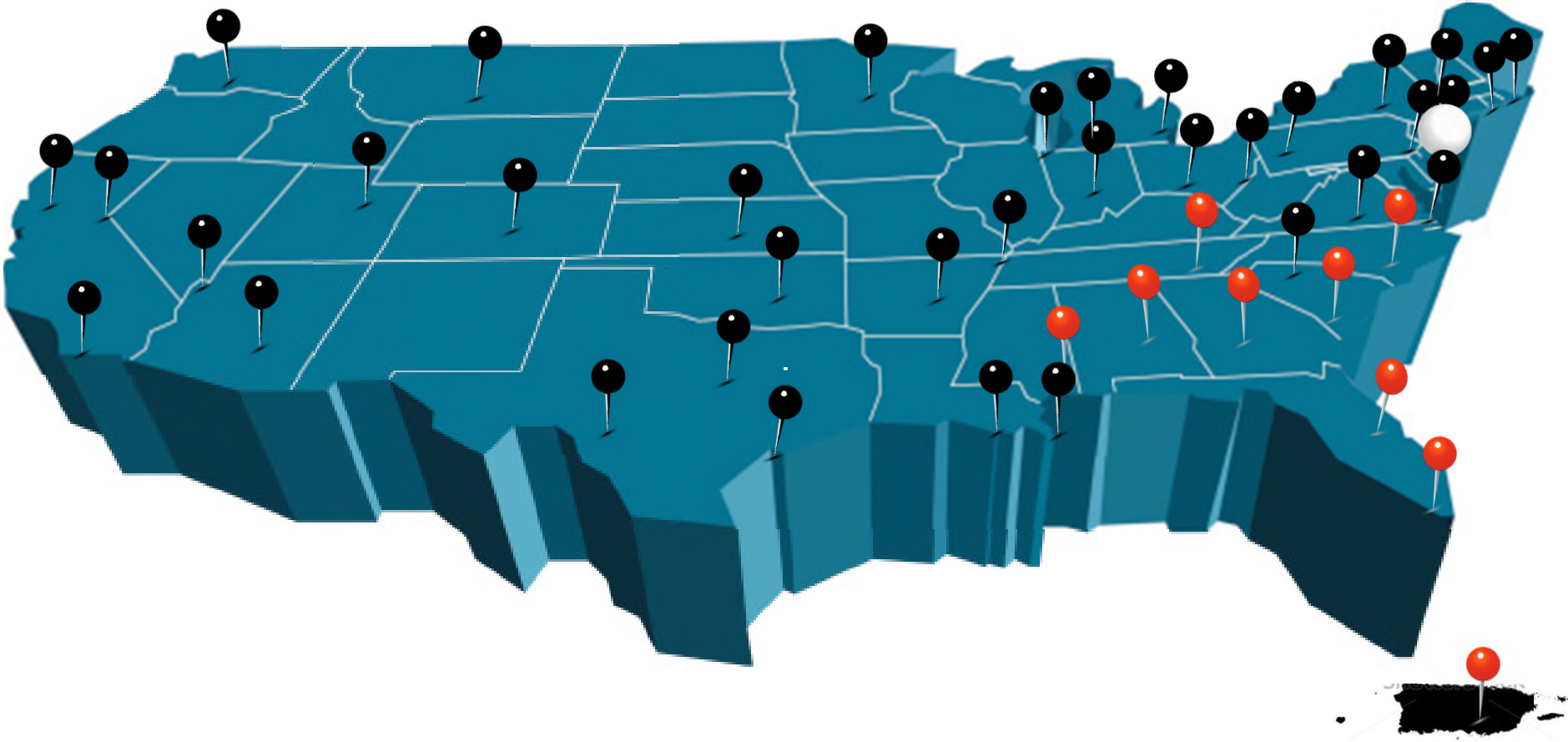
Office of Management & Technology

Office of Investigation

Plans and conducts investigations that vary in purpose and scope and may involve alleged violations of **criminal** or **civil** laws, as well as administrative requirements. The focus of an investigation may include the integrity of programs, operations, and personnel in agencies at Federal, State, and local levels of government; program, procurement, and **grant fraud** schemes; **mortgage fraud, financial fraud, and whistleblower retaliation**; and other matters involving alleged violations of law, rules, regulations, and policies.



Our Locations





SECTION II

Fraud in Small Organizations

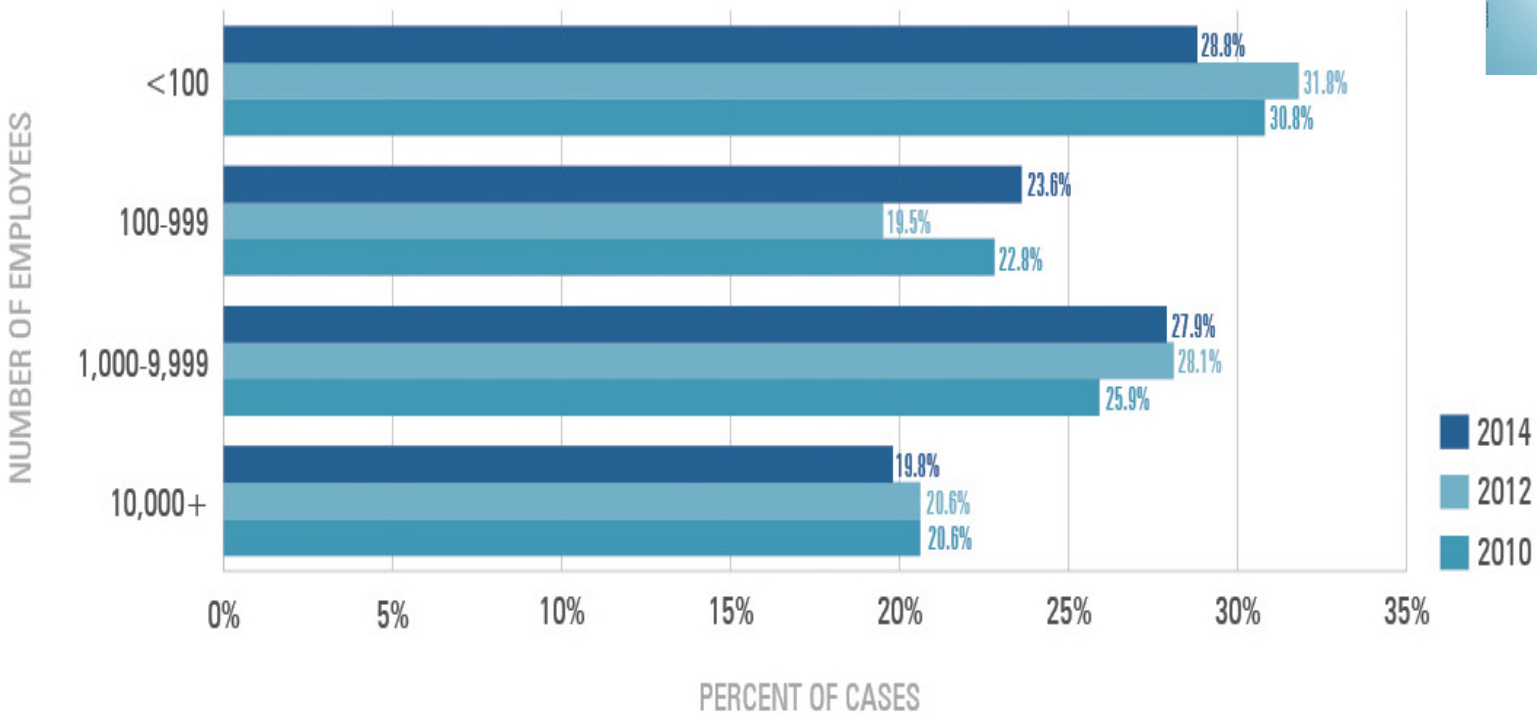
Fraud in Small Organizations

- ✓ Fraud in large organizations is identified more quickly than in small organizations
- ✓ Fraud in small organizations is more likely to result in higher losses than in large organizations
- ✓ The mission of the agency is more of a priority than fraud awareness/prevention
- ✓ Employees are trusted and dedicated so employers feel safe against fraud and abuse from within the organization
- ✓ Employees can educate client/vendors about loopholes or how to circumvent lie detection



Size of Victim Organizations

Figure 19: Size of Victim Organization — Frequency



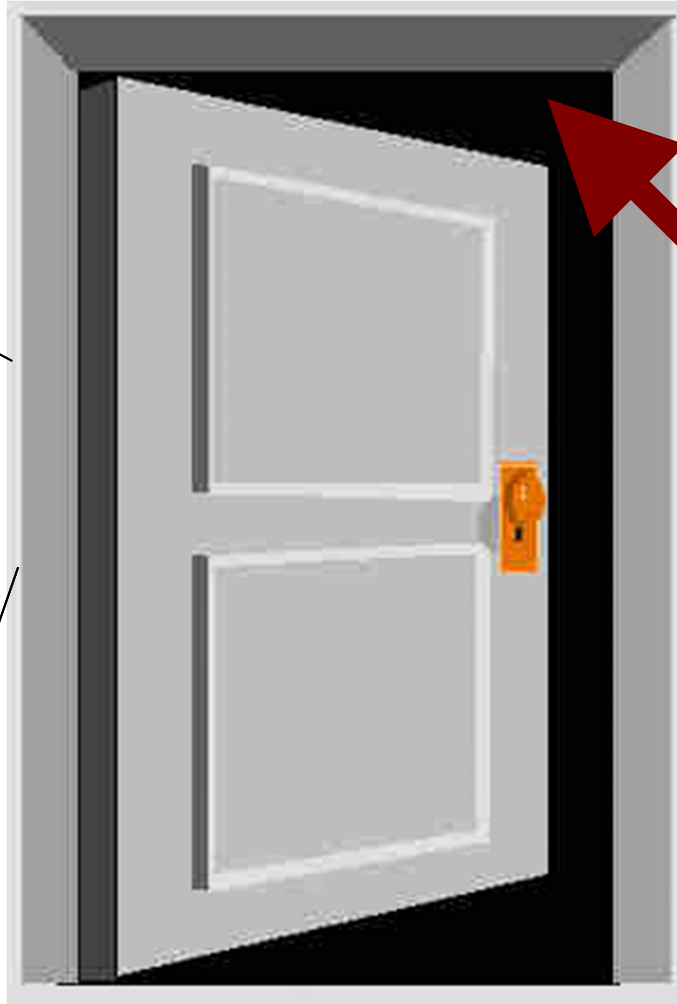
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Sources of Fraud

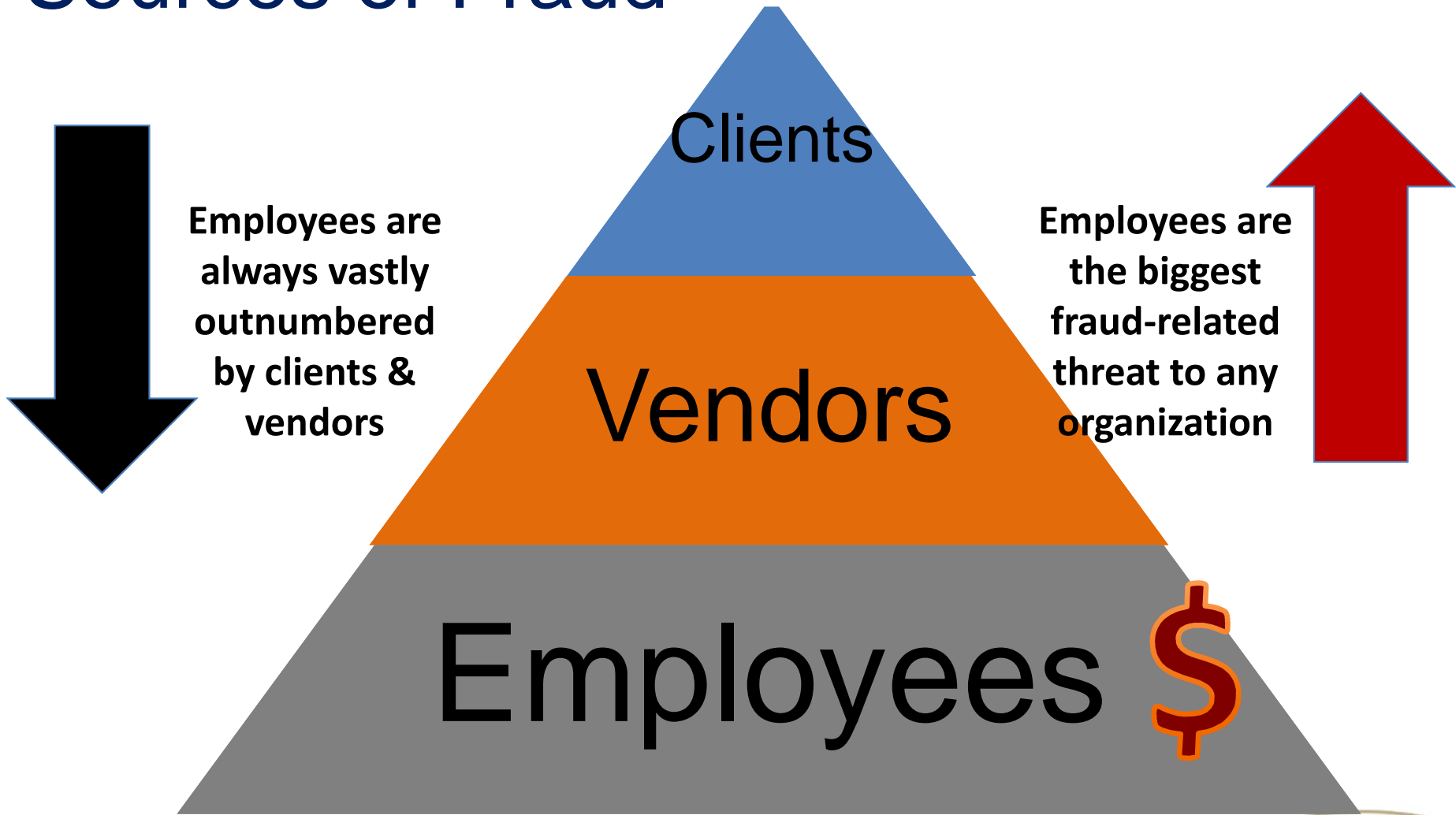
CLIENTS
People You Serve

VENDORS
People You Do
Business With



EMPLOYEES
People You Hire to
Serve Clients and
Conduct the
Business of the
Organization

Sources of Fraud



Perpetrator's Position

Figure 42: Median Duration of Fraud Based on Position

Position	Median Months to Detect
Employee	12
Manager	18
Owner/Executive	24
Other	16

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Perpetrator's Position

- ❑ **53%** of perpetrators had been with their organizations for more than five years.
- ❑ The longer a fraudster had worked for a company, the more harm he or she was likely to cause.
- ❑ **52%** of fraudsters were between 31 and 45 years old, but older fraudsters tend to cause larger losses.

The Fraud Triangle



The Perfect Storm

- Any trusted and competent *employee* can commit fraud if there is:
 - ❑ **Financial Pressure** – gambling debt, out of work spouse, kids in college, home in foreclosure, divorce, tax debt
 - ❑ **Opportunity** – Charging a client for free services
 - ❑ **Rationalization**
 - “The client was ultimately assisted, so no one was hurt”
 - “I’m not being paid enough”,
 - “Other people have done it”,
 - “I was paid in cash so no one will ever find out”
 - “Other people have done a lot worse”
 - “I will only do it once, it’ll never happen again”



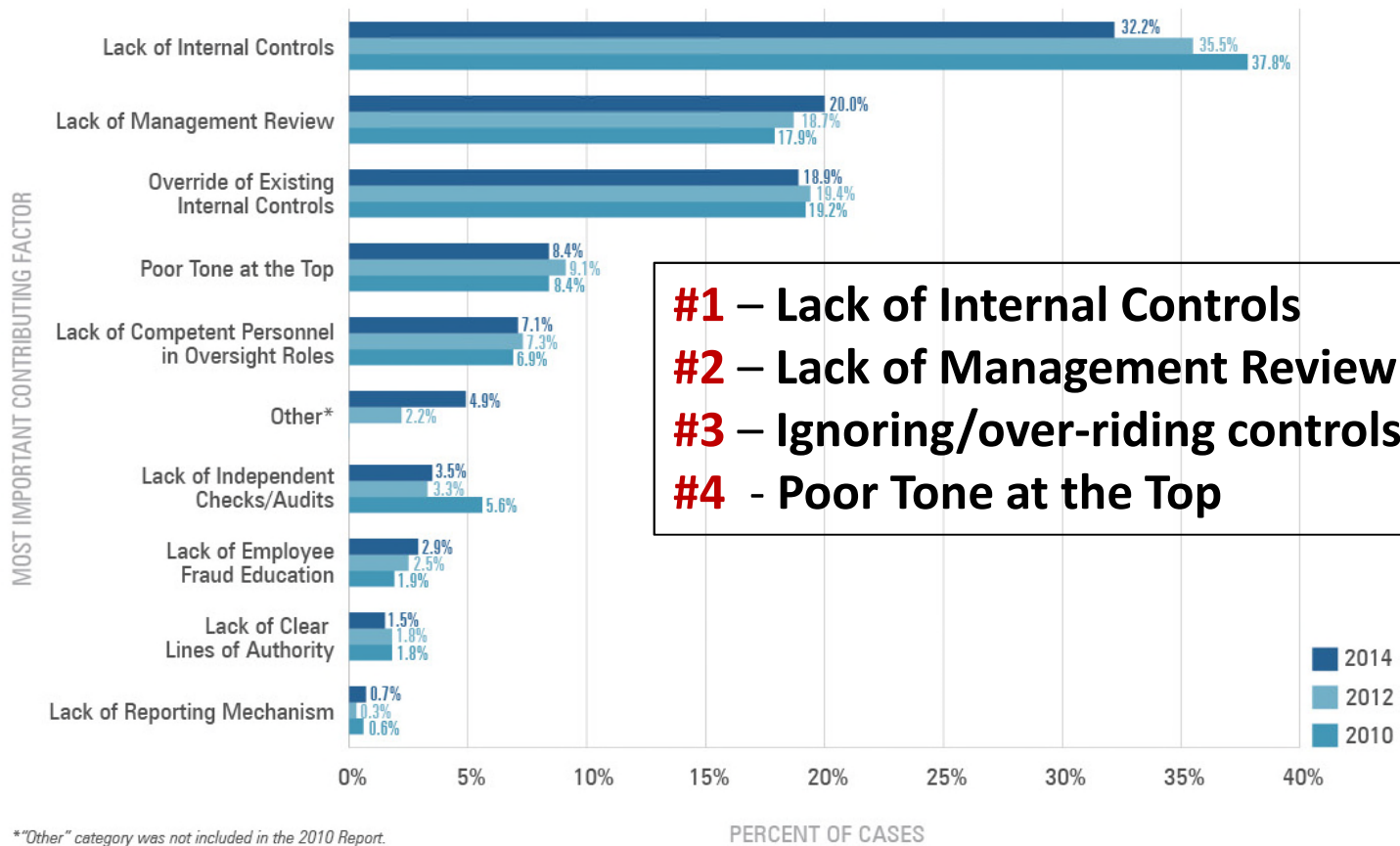
The Perfect Storm

- Any trusted and competent *manager/director* can commit fraud if there is:
 - ❑ **Financial Pressure** – lack of adequate funding, pressure to expend grant funds, pressure to meet goals
 - ❑ **Opportunity** – Submission of false reimbursement requests
 - ❑ **Rationalization**
 - “I am doing this for my staff”
 - “I’m doing this for the community”
 - “Other people have done it”,
 - “Other people have done a lot worse”
 - “I’ll only do it this one time”
 - “No one is being hurt”
 - “The funds will be wasted/returned if not used”



Control Weaknesses That Contributed to Fraud

Figure 39: Primary Internal Control Weakness Observed by CFE



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SECTION III

Cost Effective Tips

Cost Effective Tip #1 – Surprise Audits

- ✓ Advertise to employees and contractors that surprise audits are conducted.
 - ✓ The *knowledge* that surprise audits occur deters fraud
- ✓ A surprise audit should truly be a surprise
 - ✓ Keep it random but consistent
- ✓ A “surprise audit” can/should extend beyond paperwork
 - ✓ Call or send a survey to the client to verify the information in the file
 - ✓ Visit a home to verify an address or occupancy

Cost Effective Tip #2 – Anti-Fraud Policy

- ✓ Develop a written policy for employees, clients and vendors
- ✓ A good fraud policy will:
 - ✓ Define fraud
 - ✓ List examples of offenses that are prohibited
 - ✓ Require employees and contractors to report suspected fraud
 - ✓ State your commitment to investigate
 - ✓ State your commitment to report instances of fraud, waste and abuse to law enforcement
- ✓ Require clients, vendors, employees to review the fraud policy annually
- ✓ Place fraud reporting information on client, employee and vendor orientation materials, invoices, check stubs, website, email signatures etc.

Tips on developing a fraud policy can be obtained from the HUDOIG website:
http://www.hudoig.gov/sites/default/files/Developing%20a%20Fraud%20Policy_1.pdf



Cost Effective Tip #3 – Management Reviews

- ✓ **Small agencies are often unable to truly segregate duties therefore management reviews are extremely important (and often overwhelming)**
 - ✓ The person that handles client intake should not be the same person that audits the client file
 - ✓ The book keeper should not also receive and reconcile the bank statements
- ✓ **An agency similar to your own, is best equipped to provide an independent review of your policies, procedures, case management**
- ✓ **Consider an MOU with another agency for quality control reviews to mutually review files for each other**



Cost Effective Tip #3 – Fraud Hotline

✓ Email Account

- Example: Reportfraud@anywherelf.org
- Cost Effective
- More anonymous, people are more comfortable

✓ A fraud hotline advertises to clients, vendors and employees that your are sincere about detecting & preventing fraud

✓ Make sure that information from the hotline is actually addressed and that the emails are handled by the appropriate individual



Cost Effective Tip #5 – Job Rotation/Mandatory Vacation

- ✓ **A significant portion of employee fraud/misconduct is discovered when an employee is on vacation or unexpectedly ill**
- ✓ **Require employees to take vacation and to delegate their duties to another individual while they are away**
 - ✓ Don't save everything for the employee to handle upon their return
- ✓ **Rotate job duties to prevent 1 employee from having complete control over an area or function**
 - ✓ Result: Cross-trained employees
 - ✓ Result: Missing client information and/or non-compliance with policies/procedures likely to be discovered by employee taking over the job



Cost Effective Tip #6 – Develop a Code of Conduct

- ✓ Serves as a framework for ethical decision making within an organization
- ✓ Written collection of the rules, principles, values, and employee expectations
- ✓ Communication tool that informs internal and external stakeholders about what is valued by a particular organization, its employees and management
- ✓ Don't just have it...reference it....often
- ✓ Provide/review the Code of Conduct with employees at least annually
- ✓ Agencies with a Code of Conduct visible to the public are more likely to receive information about fraud within or against the organization



Cost Effective Tip #7 – Employee Rewards

- ✓ Reward/acknowledge employees for their efforts.
- ✓ Include fraud detection and prevention efforts in employee evaluations.
- ✓ Rewards don't have to be financial
 - ✓ Time Off Award
 - ✓ Recognition
- ✓ Reiterate to employees that attention to fraud awareness contributes to annual ratings, promotion consideration, selection of team leaders etc.
- ✓ Challenge employees to not only identify the problem but to also recommend solutions



Cost Effective Tip #8 – Employee Support Programs

- ✓ **Employees discover loop holes while performing their routine duties.**
 - ✓ Employees should be encouraged to report their discoveries.
 - ✓ This information should not be viewed as just “more work” or discounted (“That can’t happen because....”).
 - ✓ Don’t take offense.

- ✓ **Make sure employees know how to report fraud**

- ✓ **Ensure information reported by employees is held in confidence**
 - ✓ Employees will not report fraud suspected of co-workers or superiors if they are not certain that the information will be handled appropriately

- ✓ **Allow team leaders/supervisors to allot time for surprise audits and file reviews**
 - ✓ If management does not recognize that time is needed to perform fraud prevention/deterrence efforts – then the perception is that these efforts are not really important to management.



Effectiveness of Controls

CONTROL	REDUCTION IN FRAUD
Surprise Audit	50%
Anti-Fraud Policy	50%
Fraud Training for Employees	50%
Hotline	50%
Job Rotation/Mandatory Vacation	40%
Code of Conduct	33.3%
Employee Rewards	33.3%
Employee Support Program	22.2%

Don't Hide Dirty Laundry...Clean it!

- ✓ The occurrence of fraud alone is not a sign of a poorly run or mismanaged agency
- ✓ The *reaction* to the occurrence of fraud is what defines the management of an agency
- ✓ The existence of a fraud policy and proper handling of fraud is itself a deterrent to clients, vendors and employees
- ✓ Addressing fraud assists with ridding the industry of “bad apples”
- ✓ Addressing fraud to determine what procedures were violated allows management to truly close gaps to ensure the same fraud will not reoccur.



END

Was this helpful?

Feedback can be given to HUDOIG and/or
The Office of Housing Counseling





CONTACT INFORMATION

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