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HOUSING AND URBAN DEVELOPMENT

Fraud Risk Management – An Overview

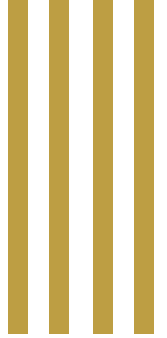
Theresa Carroll, Assistant Audit Director (Disaster Recovery Division)

2024 Problem Solving Clinic | May 8, 2024

Objectives

- Brief introduction to HUD OIG
- Designing processes with fraud awareness
- Creating strong internal controls – requirements and best practices
- Fraud schemes
- Historical OIG Audit CDBG-DR audit results

Disclaimer



The views and opinions provided herein are my own and do not necessarily represent the views of HUD, HUD OIG, or of the United States.

Our audit processes are subject to change and this presentation only reflects our current process.



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Introduction to HUD OIG

What is HUD OIG?



- HUD's Office of Inspector General (OIG) was created by the Inspector General Act of 1978 (Public Law 95-452).
- The OIG is an independent office within HUD. We operate independently with separate budgetary authority.
- The OIG is free from undue influence or constraints in performing our statutory mission of detecting and preventing fraud, waste, and abuse; and promoting the effectiveness and efficiency of government operations.
- Our independence allows for clear and objective reporting to the Secretary and Congress.

[Front Page | Office of Inspector General, Department of Housing and Urban Development \(hudoig.gov\)](#)

What is HUD OIG's mission?

Safeguard HUD's programs from fraud, waste, and abuse, and identify opportunities for HUD programs to progress and succeed.

[Mission & Vision | Office of Inspector General, Department of Housing and Urban Development \(hudoig.gov\)](https://www.hudoig.gov)

What does the HUD OIG Office of Audit do?

- Conduct Audits of HUD, its programs, its grantees and beneficiaries.
- Assist in civil and criminal fraud cases, including support for our Office of Investigations and the US Attorney's Office.
- Review legislation, regulations, and rules.
- Follow-up on audit recommendations.
- Provide outreach and training.



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Designing Processes with Fraud Awareness

GAO's Definitions

Fraud involves obtaining something of value through **willful misrepresentation**. Whether an act is, in fact, fraud is determined through the judicial or other adjudicative system and is beyond auditors' professional responsibility.

[Yellow Book: Government Auditing Standards | U.S. GAO](#)

Abuse - GAO's Definition

Abuse: Behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary business practice given the facts and circumstances, but excludes fraud and noncompliance with provisions of laws, regulations, contracts, and grant agreements.

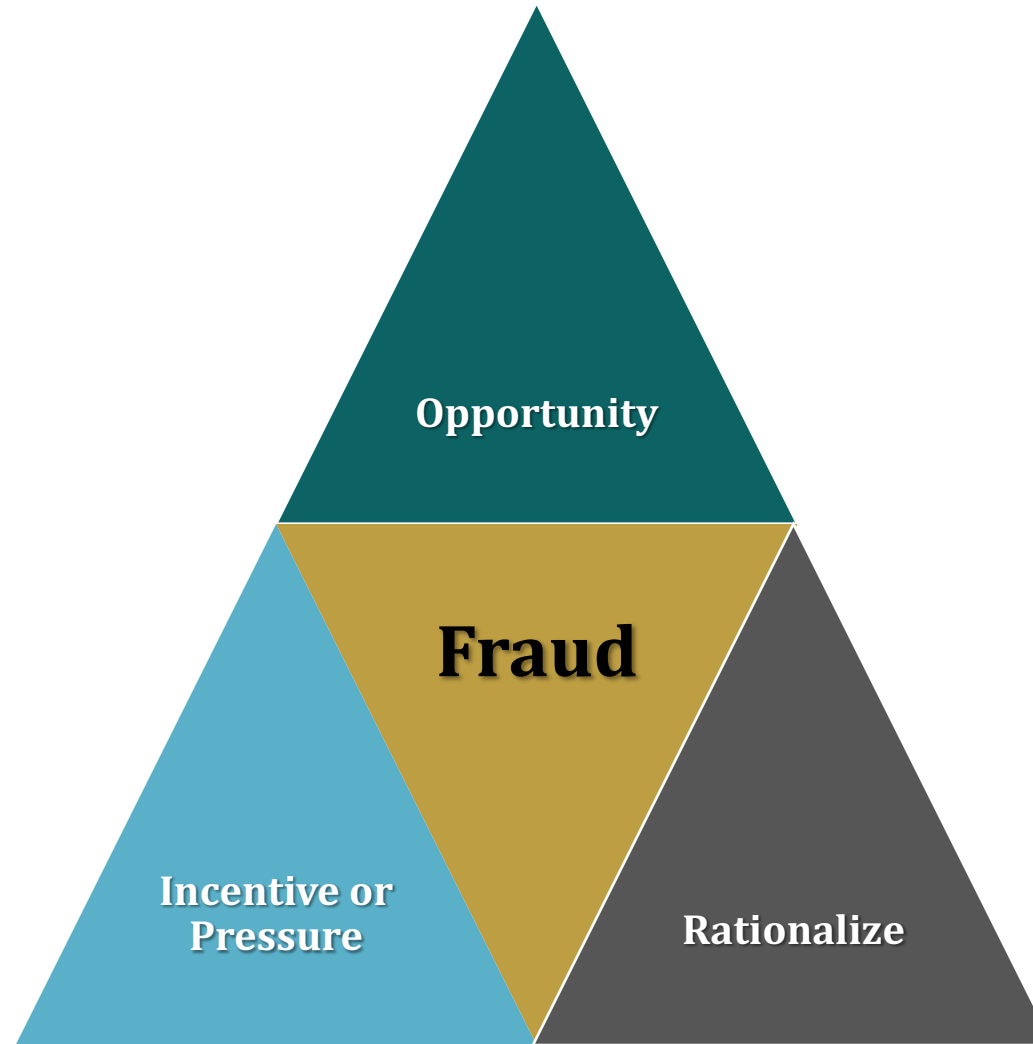
[Yellow Book: Government Auditing Standards | U.S. GAO](#)

Waste - GAO's Definition

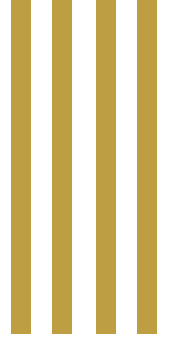
Waste: The act of using or expending resources carelessly, extravagantly, or to no purpose. Waste can include activities that do not include abuse and does not necessarily involve a violation of law.

[Yellow Book: Government Auditing Standards](#) | [U.S. GAO](#)

Why Does Fraud Happen?



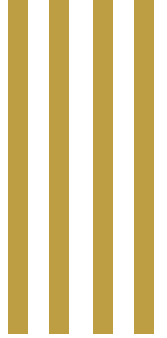
Limit Opportunity - Create & Maintain a Culture of Ethics



HUD grantees are responsible for establishing a culture that promotes and values integrity and ethics. Furthermore, **management** is responsible for setting the “**tone from the top**” by:

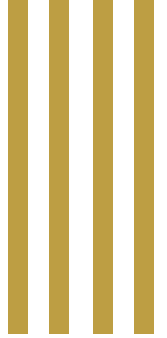
- Creating an environment in which employees understand that dishonest acts will be detected and promptly addressed.
- Sending a message that the organization will aggressively seek out and take action on possible fraudulent conduct, instead of waiting for instances to come to its attention.

Be Aware of Possible Incentive or Pressure Indicators



- Living beyond means.
- Financial difficulties.
- Controlling and unwilling to share duties.
- Struggling to meet organization goals.
- Close relationship with vendors/customers (conflict of interest).

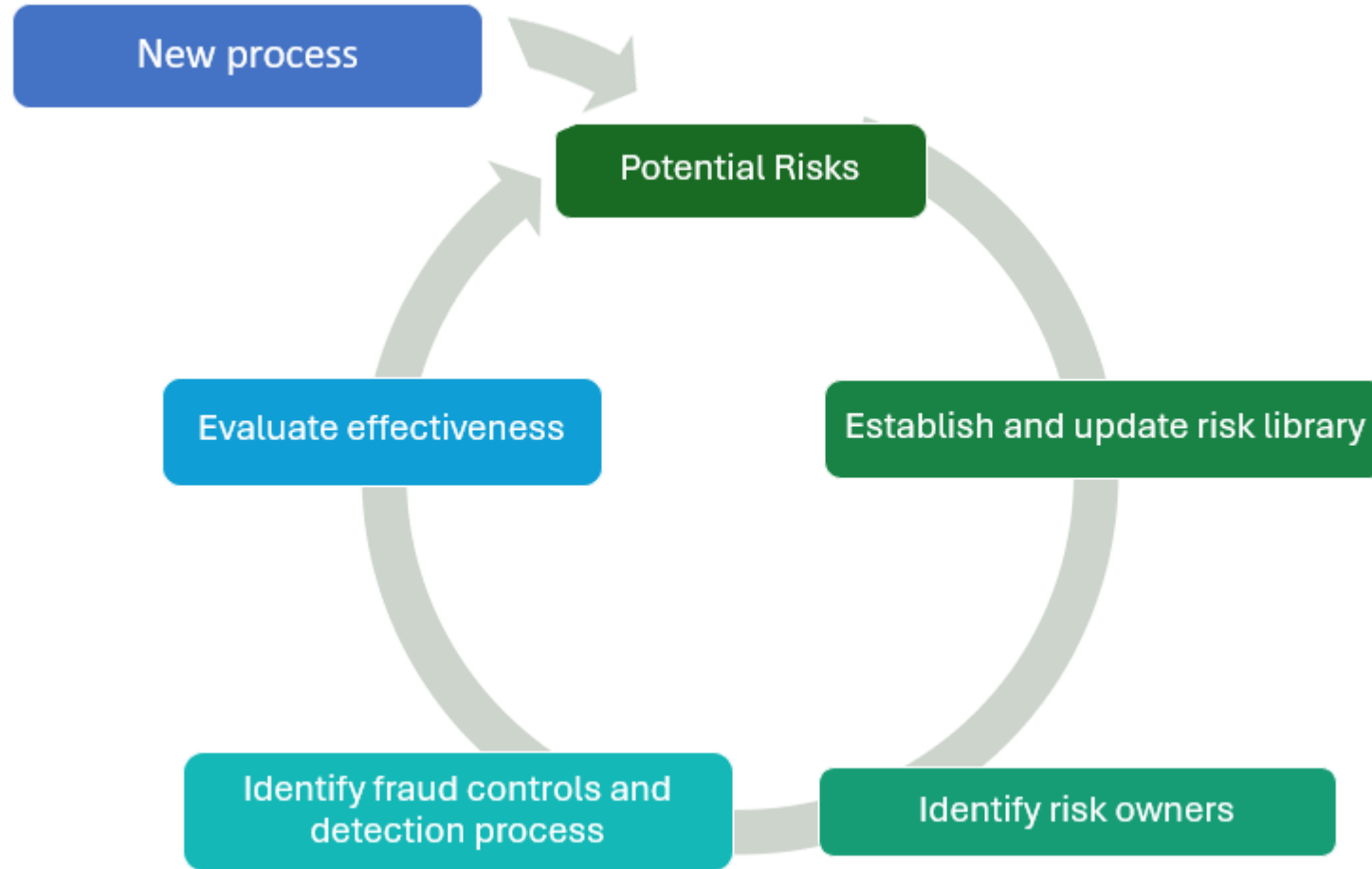
Why is Fraud Awareness & Detection Necessary?



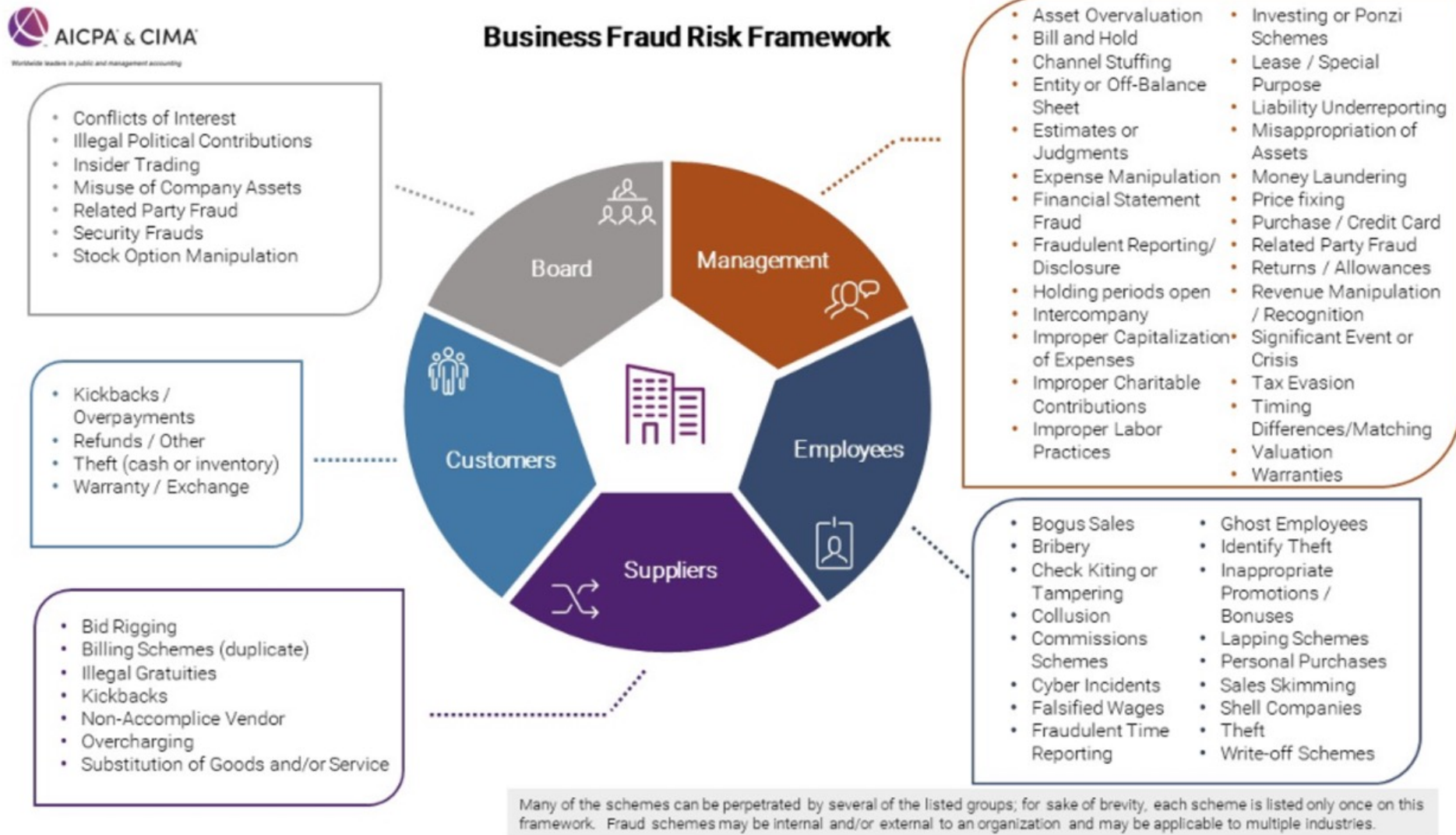
Failure to prevent and detect fraud, waste, and abuse can expose an organization, its programs, or individuals to:

1. Financial liabilities
2. Civil penalties
3. Criminal prosecution

Designing Processes & Assessing Risk



Example – Identifying Risks



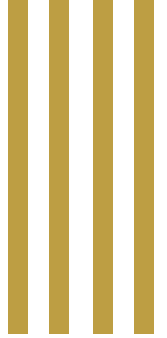
Identify Risks for Procurement

- Excessive or unjustified change orders.
- Lowest bidder not selected without proper justifications.
- Sole source contracts awarded without proper justification.
- Failure to maintain documentation.
- Weak or nonexistent procurement policies.
- Weak management oversight.
- Aged contracts.
- Use of debarred contractors.
- Lack of required contract clauses.

Identify Risks – Homebuyer Assistance Programs

- Not the homeowner.
- Not a primary residence.
- Identify theft.
- Duplication of benefits.
- Home was not damaged by the disaster.
- Collusion with a contractor.
- Home is not properly repaired or not repaired at all.
- Homebuyers sells the property before a set period.

Fraud Control Cost Benefit Considerations

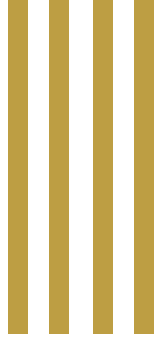


Weigh the costs associated with a control or process against the benefits that will arise from it. Generally, the benefits from a process or system should outweigh the costs associated with it.

Maintain Documentation

Source documentation is **vital** to:

1. Explain and support your **risk assessment** and **organizational policies**.
2. Explain and support **financial management**. (2 CFR 200.302)
3. Explain and **support procurement actions**.
4. Support the **reasonableness** of costs and whether costs are **allowable**. (2 CFR 200.403.)



Include Certifications & Warnings

Penalty of perjury certifications and fraud and false statement warnings are important **deterrents** of fraudulent activity as well as important factors in **pursuing** successful criminal and civil **prosecution**.

The preferred location is directly above the signature line so there is clarity as to what signer is certifying.



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Creating Strong Internal Controls – Requirements and Best Practices

Uniform Administrative Requirements Internal Controls – 2 CFR 200.1 Definitions

Internal controls for non-Federal entities means:

- (1) Processes designed and implemented by a non-Federal entity to provide **reasonable assurance** regarding the achievement of objectives in the following categories:
 - i. Effectiveness and efficiency of operations;
 - ii. Reliability of reporting for internal and external use; and
 - iii. Compliance with applicable laws and regulations.

<https://www.ecfr.gov/current/title-2/section-200.1>

Uniform Administrative Requirements

Internal Controls – 2 CFR 200.303

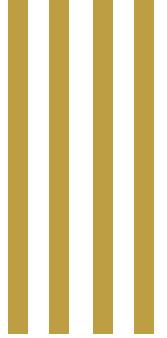
The non-Federal entity must:

- (a) Establish and maintain effective internal control over the Federal award that provides **reasonable assurance** that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. **These internal controls should be in compliance with guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States or the “Internal Control Integrated Framework,” issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).**
- (b) Comply with the U.S. Constitution, Federal statutes, regulations, and the terms and conditions of the Federal awards.

[eCFR :: 2 CFR 200.303 -- Internal controls.](#)

Uniform Administrative Requirements

Internal Controls – 2 CFR 200.303 (continued)



- (c) **Evaluate and monitor** the non-Federal entity's compliance with statutes, regulations and the terms and conditions of Federal awards.
- (d) **Take prompt action** when instances of noncompliance are identified including noncompliance identified in audit findings.
- (e) Take reasonable measures to **safeguard** protected **personally identifiable information** and other information the Federal awarding agency or pass-through entity designates as sensitive or the non-Federal entity considers sensitive consistent with applicable Federal, State, local, and tribal laws regarding privacy and responsibility over confidentiality.



United States Government Accountability Office

By the Comptroller General of the
United States

September 2014

Standards for Internal Control in the Federal Government

[GAO-14-704G, STANDARDS FOR INTERNAL CONTROL
IN THE FEDERAL GOVERNMENT](#)

GAO's Standards for Internal Control in the Federal Government

Internal control and the Green Book

What is internal control?

Internal control is a process used by management to help an entity achieve its objectives.

How does internal control work?

Internal control helps an entity

- Run its operations efficiently and effectively
- Report reliable information about its operations
- Comply with applicable laws and regulations

How is the Green Book related to internal control?

Standards for Internal Control in the Federal Government, known as the Green Book, sets internal control standards for federal entities.

How does an entity use the Green Book?



Objective identified



Controls designed



Controls in place



Objective achieved

An entity uses the Green Book to design, implement, and operate internal controls to achieve its objectives related to operations, reporting, and compliance.

Who would use the Green Book?



A program manager at a federal agency



Inspector general staff conducting a financial or performance audit



An independent public accountant conducting an audit of expenditures of federal dollars to state agencies



A compliance officer responsible for making sure that personnel have completed required training

GAO's Standards for Internal Control in the Federal Government

Figure 3: The Five Components and 17 Principles of Internal Control

Control Environment

1. The oversight body and management should demonstrate a commitment to integrity and ethical values.
2. The oversight body should oversee the entity's internal control system.
3. Management should establish an organizational structure, assign responsibility, and delegate authority to achieve the entity's objectives.
4. Management should demonstrate a commitment to recruit, develop, and retain competent individuals.
5. Management should evaluate performance and hold individuals accountable for their internal control responsibilities.

Risk Assessment

6. Management should define objectives clearly to enable the identification of risks and define risk tolerances.
7. Management should identify, analyze, and respond to risks related to achieving the defined objectives.
8. Management should consider the potential for fraud when identifying, analyzing, and responding to risks.
9. Management should identify, analyze, and respond to significant changes that could impact the internal control system.

Control Activities

10. Management should design control activities to achieve objectives and respond to risks.
11. Management should design the entity's information system and related control activities to achieve objectives and respond to risks.
12. Management should implement control activities through policies.

Information and Communication

13. Management should use quality information to achieve the entity's objectives.
14. Management should internally communicate the necessary quality information to achieve the entity's objectives.
15. Management should externally communicate the necessary quality information to achieve the entity's objectives.

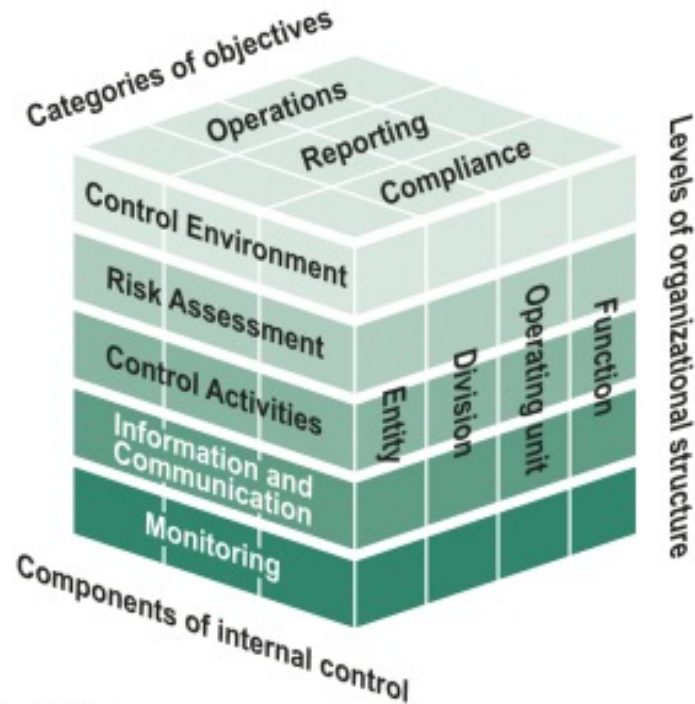
Monitoring

16. Management should establish and operate monitoring activities to monitor the internal control system and evaluate the results.
17. Management should remediate identified internal control deficiencies on a timely basis.

Source: GAO. | GAO-14-704G

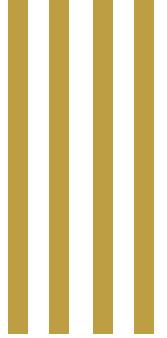
GAO's Standards for Internal Control in the Federal Government

Figure 4: The Components, Objectives, and Organizational Structure of Internal Control



Sources: COSO and GAO. | GAO-14-704G

COSO's Internal Control - Integrated Framework



The Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control—Integrated Framework, originally issued in 1992 and refreshed in 2013 (ICIF-2013 or Framework), was developed as guidance to help improve confidence in all types of data and information.

In 2023 COSO issued supplemental guidance for organizations to achieve effective internal control over sustainability reporting (ICSR), using the globally recognized COSO Internal Control-Integrated Framework (ICIF).

[Internal Control | COSO](#)

Additional Best Practices Resources

- The U.S. Chief Financial Officers Council and the U.S. Department of the Treasury, Bureau of the Fiscal Service's [Program Integrity: The Antifraud Playbook](#)
- The GAO's [A Framework for Managing Fraud Risks in Federal Programs](#)
- COSO's [Fraud Risk Management Guide](#)
- Association of Certified Fraud Examiners' [Anti-fraud Playbook](#)

GAO's *A Framework for Managing Fraud Risks in Federal Programs*

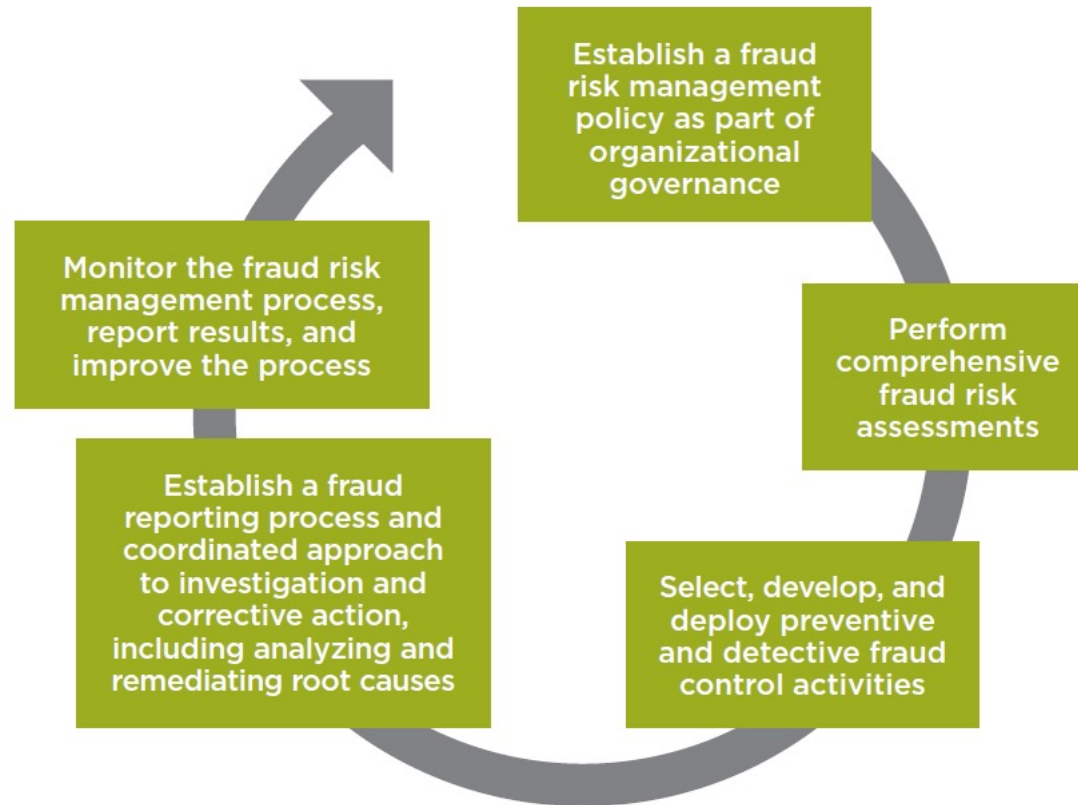
Figure 2: The Fraud Risk Management Framework



Source: GAO. | GAO-15-593SP

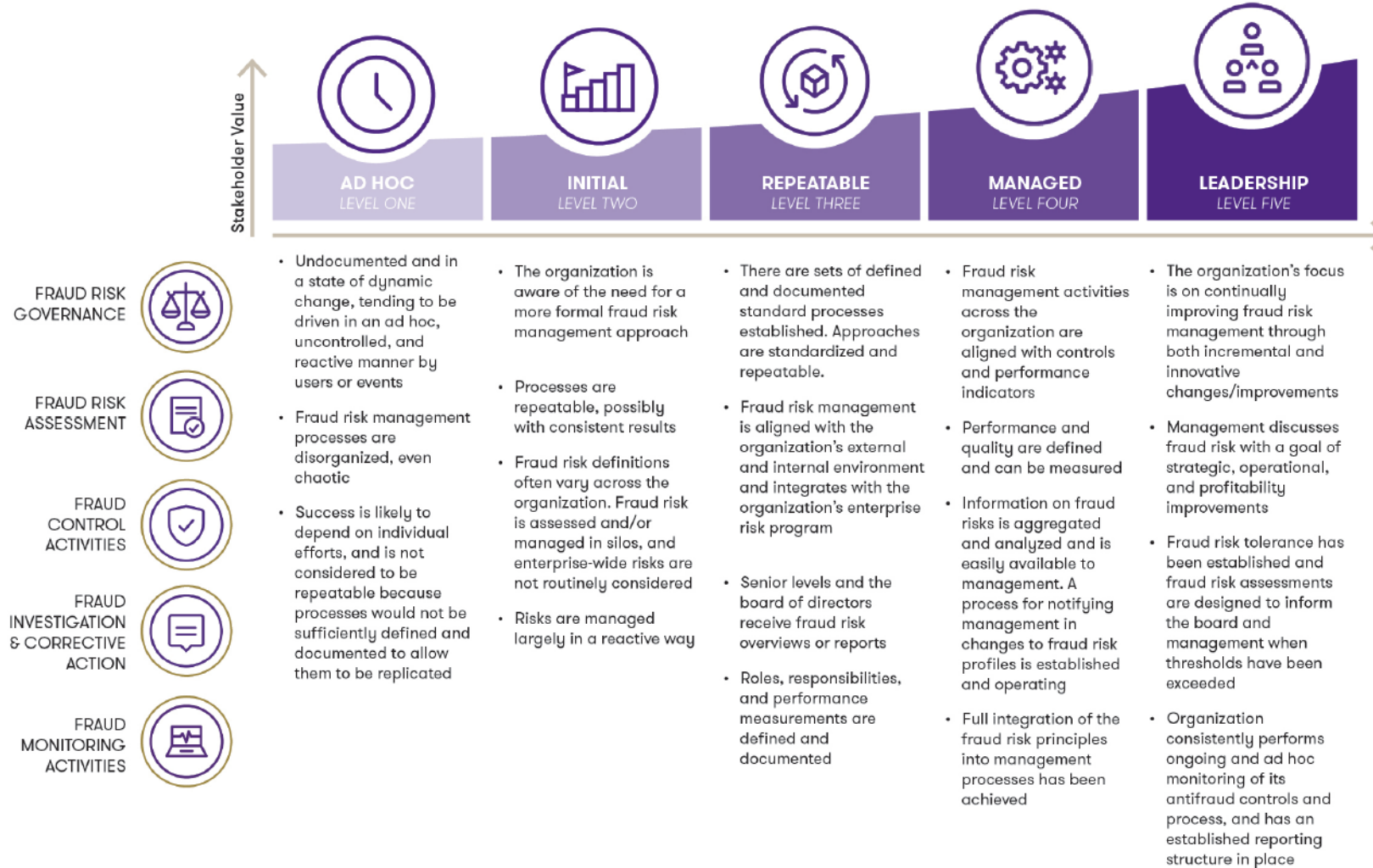
COSO's *Fraud Risk Management Guide*

Figure 1. Ongoing, Comprehensive Fraud Risk Management Process



ACFE's Anti-Fraud Playbook

FIG. 2 Enterprise Anti-Fraud Maturity Assessment Model®



Fraud Risk Management Best Practices

Organizations often benefit from aligning their operations with industry-established best practices. The following GAO and COSO best practices could be adopted and implemented to better detect and prevent fraud:

1. Commit to combating fraud by creating an organizational culture and structure conducive to fraud risk management. Establish a Fraud Risk Management policy that demonstrates the organization's commitment to high integrity and ethical values regarding managing fraud risk.
2. Plan regular fraud risk assessments and assess risks to identify specific fraud schemes and risks, assess their likelihood and significance, evaluate existing fraud control activities, and implement actions to mitigate residual fraud risks.
3. Design and implement a strategy with specific preventive and detective fraud control activities to mitigate assessed fraud risks and collaborate to help ensure effective implementation.
4. Establish a communication process to obtain information about potential fraud and deploy a coordinated approach to investigation and corrective action to address fraud appropriately and in a timely manner.
5. Evaluate outcomes using a risk-based approach and adapt activities to improve fraud risk management. Perform ongoing evaluations to ascertain that all fraud risk management components are present and communicate deficiencies to the parties responsible for taking corrective action.



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Common Fraud Schemes

Common Fraud Schemes

1. Embezzlement and theft
2. Contracting and procurement fraud
3. Bribes and kickbacks
4. Conflict(s) of interest
5. Duplication of benefits
6. Social media scams
7. Identity theft
8. Contractor fraud
9. False eligibility claims



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Historical HUD OIG CDBG-DR Results and How They Relate to Fraud Risk Assessment

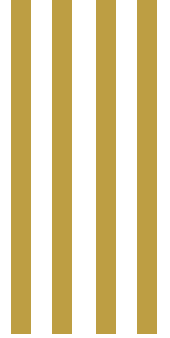
CDBG-DR Grant Funding (2001- 2024)

Disaster Grantee Grant	Grant \$ (Grant Level)
2001 World Trade Center	3,483,000,000.00
2003-2004 Multiple Disasters	146,452,997.22
2005 Hurricanes Katrina, Rita, Wilma	19,666,374,580.89
2008 Hurricane Ike and Other Events	6,094,810,135.46
2008 Midwest Floods	299,873,096.42
2010 Severe Storms and Flooding	99,094,271.57
2011 Multiple Disasters	400,000,000.00
2011-2013 Hurricane Sandy and Other Events	14,181,853,078.19
2013 National Disaster Resilience	999,108,000.00
2015 Hurricane Joaquin and Patricia and Other Events	400,447,000.00
2015-2018 Mitigation	16,121,297,000.00
2016 Louisiana Floods and Other Events	2,604,529,000.00
2017 Hurricanes Harvey, Irma and Maria	17,851,484,000.00
2018 Disasters	2,927,732,000.00
2019 Disasters	521,563,000.00
2020 Hurricanes Laura, Delta and Zeta (LDZ)/2021 Hurricane Ida and Wildfires (IDF)	6,470,553,000.00
2022 Disasters including Hurricanes Fiona and Ian	3,395,351,000.00
Electrical Power Systems in Puerto Rico and the U.S. Virgin Islands	2,000,000,000.00
Storms, Flooding, and Other Disasters in California, Alabama, and Georgia	138,020,000.00
Total	97,801,542,159.75

Historical OIG Audit Results

2002-2024: Issued a total of **156** CDBG Disaster Recovery related audit reports or audit memorandums.

Common Issues in HUD OIG CDBG-DR Audits



1. Did not follow program and administrative requirements, including Federal cost principles, uniform administrative requirements, or duplication of benefit requirements.
2. Did not follow procurement requirements.
3. Could not support eligibility of applicant awards.
4. Did not adequately monitor their program.
5. Did not follow grantee, local, or subrecipient agreement requirements.

[2022-FW-0801 \(hudoig.gov\)](https://www.hudoig.gov/2022-FW-0801)

Common Causes of CDBG-DR Audit Issues

1. Lacked controls or were unfamiliar with the program requirements.
2. Had weak policies or did not implement controls.
3. Relied on or did not monitor their subrecipients.
4. Lacked adequate staff or capacity to administer the program.

[2022-FW-0801 \(hudoig.gov\)](https://www.hud.gov/program-offices/office-of-community-development/2022-FW-0801)

Disaster Recovery Audit Reports

Audits & Evaluations

The Offices of Audit and Evaluation supervise and conduct independent and objective audits, evaluations, and other reviews of U.S. Department of Housing and Urban Development (HUD) programs and activities to ensure they operate economically, efficiently, and effectively. This page contains links to our audit and evaluation reports and memoranda.

102 items Clear all

Keywords

APPLY

CPD Could Improve the Timing of Delivery of Disaster Recovery Funding

From 2001 to 2022, the Community Development Block Grant - Disaster Recovery program provided almost \$98 billion to states, cities, counties, and territories to help them recover from disasters. Administering disaster recovery has been a recurring U.S. Department of Housing and Urban Development (HUD) top management challenge since 2018. Therefore, we audited the disaster recovery program to determine whether the Office of...

December 15, 2023 Report #2024-FW-0002

The Puerto Rico Department of Housing Should Enhance Its Fraud Risk Management Practices

We audited the Puerto Rico Department of Housing's (PRDOH) fraud risk management practices to assess the maturity of its antifraud efforts. HUD heavily relies on its grantees to detect and prevent fraud, waste, and abuse and PRDOH is HUD's second largest Community Development Block Grant Disaster Recovery and Mitigation (CDBG-DR and CDBG-MIT) grantee with over \$20 billion in block grant funding. Our objective was to assess...

October 27, 2023 Report #2024-FW-1001

Preventing Duplication of Benefits When Using Community Development Block Grant Disaster Recover and Mitigation Funds

We performed an audit examining HUD's efforts to prevent duplication of benefits when using Community Development Block Grant (CDBG) Disaster Recovery and Mitigation funds. Our objective was to determine how the U.S. Department of Housing and Urban Development (HUD) assesses the adequacy of grantee procedures to prevent a duplication of benefits, both before and after grant execution. HUD certified grantees' high-level processes...

October 24, 2023 Report #2024-FW-0001

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- ☐ Community Improvement (445)
- ☒ Disaster Relief (126)
- ☐ Healthcare Programs (17)
- ☐ Homeownership (283)
- ☐ Housing Health And Safety (37)

[Audits & Evaluations | Office of Inspector General, Department of Housing and Urban Development \(hudoig.gov\)](#)

Questions?



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