

# Fraud, Waste, and Abuse

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# Agenda

- Introduction
- Understanding Fraud
- Fraudulent Activities with Federal Funds
- Common Types of Fraud by Program Type
- Consequences of Committing Fraud
- Your Role – Preventing Fraud, Waste and Abuse

# Introduction





## Definitions

- **Fraud** – intentional deception to secure unfair or unlawful gain, or to deprive a victim of a legal right. Fraud can violate civil law or criminal law.
- **Waste** - useless consumption or expenditure; use without adequate return
- **Abuse** - the improper usage or treatment of a thing, often to unfairly or improperly gain benefit



# Requirements for Grantees

## HUD requires...

- Grantees to establish remedies for non-compliance by any designated subrecipients, public agencies or local governments



## Federal Register requires...

- Grantees to attend and require subrecipients to attend fraud related training provided by HUD OIG



**FEDERAL REGISTER**  
The Daily Journal of the United States Government



## Grantees are expected to...

- Monitor all funded programs for instances of fraud, waste and abuse
- Take steps to address
- Report to appropriate authorities



# Office of the Inspector General

- HUD Office of the Inspector General (OIG) is an independent office
- OIG's role is to promote economy, efficiency, and effectiveness of HUD's programs and operations
- Prevent and respond to issues related to fraud, waste and abuse
- Reports to HUD Secretary, Congress and the public  
(<https://www.hudoig.gov/library/audits-evaluations>)





# OIG Investigations

## Types of OIG investigations

- Contract/grant fraud
- Mortgage fraud (FHA Insured)
- Theft/Embezzlement/False Claims
- Bankruptcy fraud
- Equity skimming
- Landlord/Tenant fraud
- Identify theft
- Bribery
- Larceny



# Understanding Fraud







# Fraud

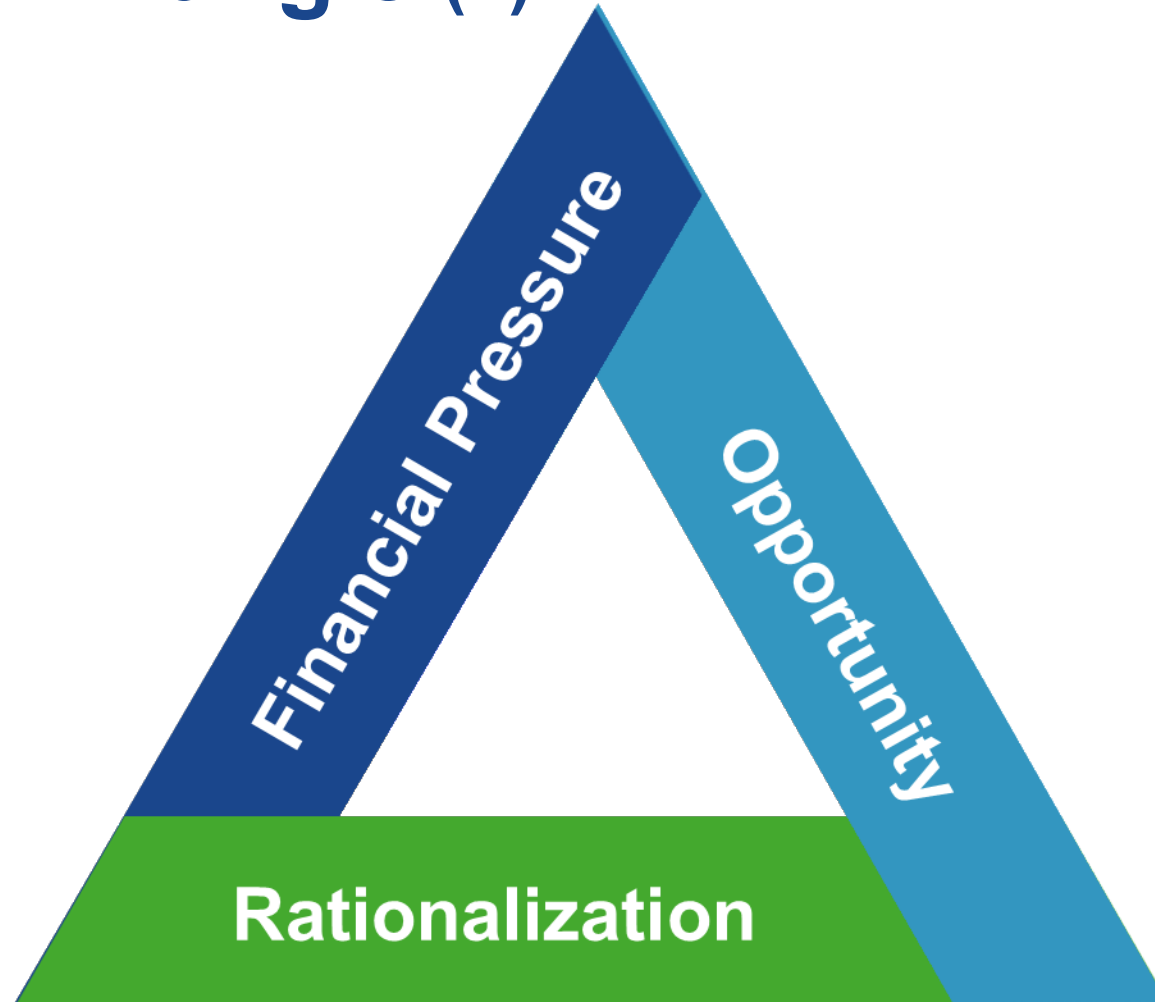
- Can take many forms
- Involves deception through the **misrepresentation** or omission of material facts for the **purpose of illegitimate gain**
- Due to finite resources, deprives citizens with legitimate needs from governmental benefits designed to support and assist them



Fraud by Nick Youngson CC BY-SA 3.0 Alpha Stock Images



# Fraud Triangle (1)

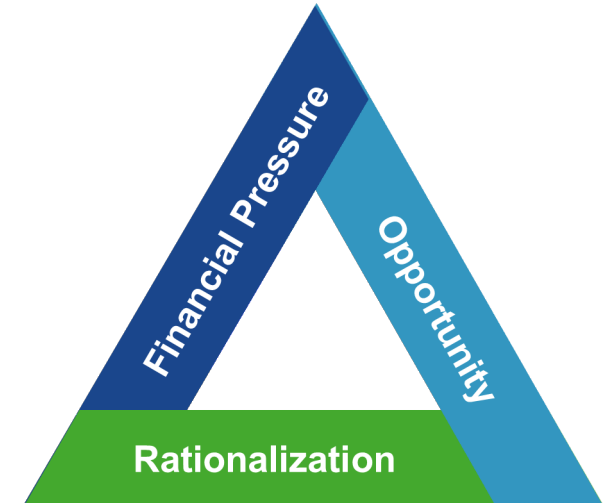




## Fraud Triangle (2)

Any trusted and competent employee can commit fraud if there is:

- **Financial Pressure**
  - Personal – gambling debt, home in foreclosure, divorce
  - Professional – pressure to expend grant funds, meet goals
- **Opportunity**
  - Example: Charging client for free services
  - Example: Submitting false reimbursement requests



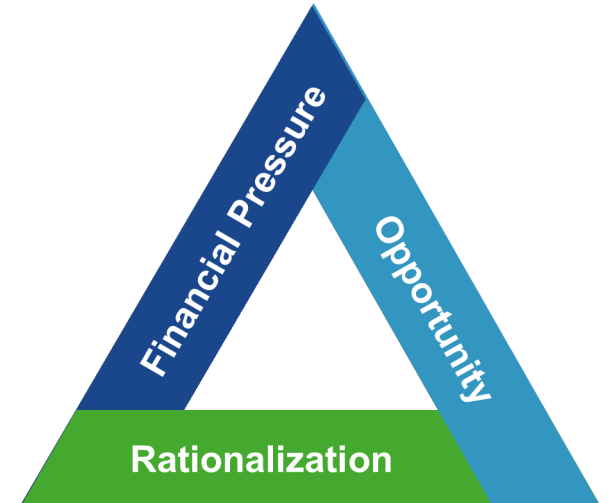


## Fraud Triangle (3)

Any trusted and competent employee can commit fraud if there is:

- **Rationalization**

- “Client was assisted, and 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”
- “Others have done worse”
- “I will only do it once. It will never happen again.”





# Sources of Fraud – Employees

**Employees** – people you hire to serve clients and conduct the business of the organization or entity with vendors

- **Example:** Appraisers and Code Enforcement Officials
  - Inflating value of repairs
  - Soliciting bribes
  - Accepting kickbacks from homeowners and contractors





# Sources of Fraud – Clients



**Clients** – the people you serve

- **Example:** Homeowners

- False deeds
- Failure to report insurance, other benefits received
- Failure to report lien information
- Multiple application
- Falsifying residency



# Sources of Fraud – Vendors

**Vendors** – people with whom you do business

- **Example:** Contractors
  - Failing to begin or complete work
  - Substandard work
  - Using substandard materials/products



# Fraudulent Activities with Federal Funds



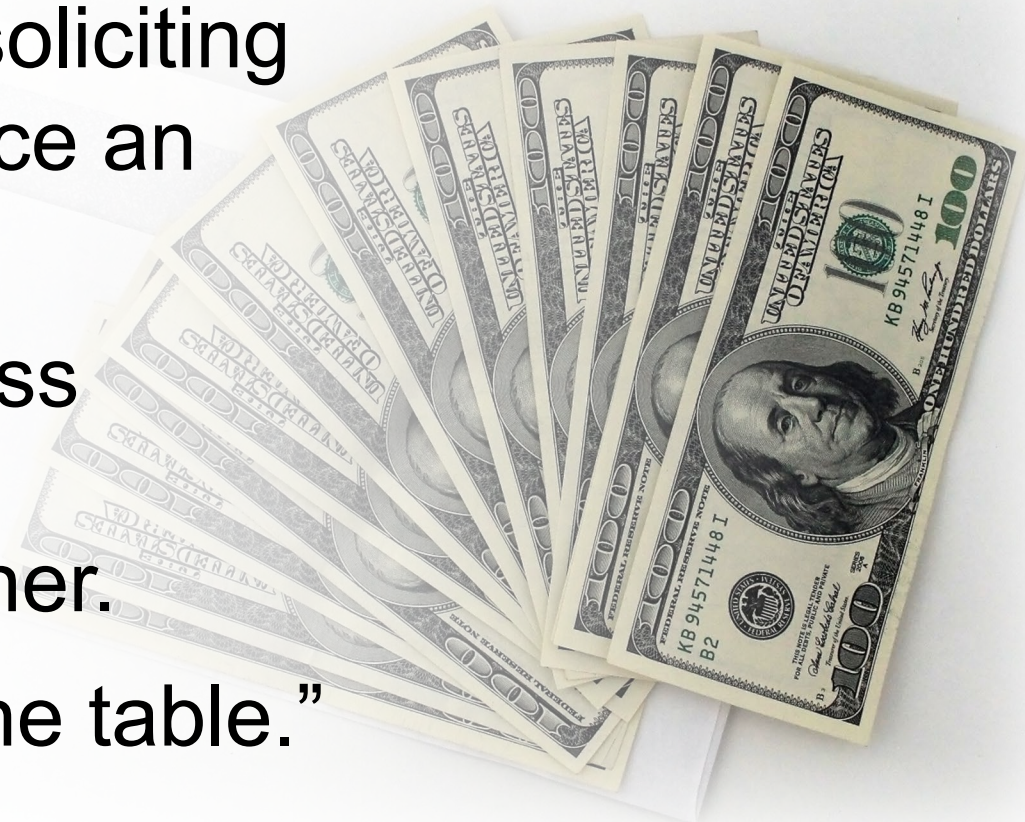




# Fraudulent Activities with Federal Funds – Bribery

## Bribery:

- Offering, giving, receiving or soliciting of anything of value to influence an official act.
- Bribery is an unethical business transaction where one person pays for the influence of another.
- Bribery is conducted “under the table.”





# Fraudulent Activities with Federal Funds – Bid Rigging

## Bid Rigging:

- Fraud that involves the impeding of competitive bidding
- Usually involves an agreement to limit competition
- Usually occurs in the pre-solicitation, solicitation, or evaluation phase of the bidding process





# Fraudulent Activities with Federal Funds – Documentation

## Fraud related to documentation:

- Forgery or alteration of documents
- Impropriety with respect to reporting financial transactions
- Destruction or concealment of records or assets
- Beneficiary under-reporting of income



truth

Credit: pdpics.com



# Fraudulent Activities with Federal Funds – Billing

## Billing schemes:

- Submission of false invoices or altered valid invoices for payment
  - Shell company
  - Mishandling of legitimate vendor invoices
  - Personal purchases on company credit card
  - Misappropriation or theft of funds or assets
  - Most billing schemes involve services, rather than goods. It is easier to conceal services not performed than goods not received.





# Fraudulent Activities with Federal Funds – Conflict of Interest

## Conflict of Interest (COI):

- COI occurs when an employee, manager, or executive has an **undisclosed economic or personal interest** in a transaction that adversely affects their employer.
- **Criminal** conflict occurs when an employee participates substantially in a particular matter where he/she has a financial interest, **IF** that matter will have a direct and predictable effect on that interest.
- Includes profiting from insider knowledge



# Fraudulent Activities with Federal Funds – Ownership Fronts



## Small business or Disabled/ Minority/ Woman/ Veteran – Owned front

- Contractors certified as small business or disabled, minority, women and veteran – owned businesses are often given preferential treatment in contract awards.
- Some contractors falsely certify themselves, or obtain legitimate certifications, through invalid means.

# Common Types of Fraud by Program Type





# Fraud in Crosscutting Programs

- Embezzlement and theft
- Contracting and procurement fraud
- Bribery and kickbacks
- Conflicts of interest
- Social media scams
- Identity theft







# Fraud in Beneficiary Programs

- Duplicate benefits
- False eligibility claims
- Contract repair fraud
- More often seen in disaster recovery and other “emergency” programs





# Fraud in Rental Assistance Programs

- Soliciting or accepting bribes
- False billing
- Conflict of interest
- Sexual harassment/extortion
- Section 8 landlord fraud
- Tenant/applicant fraud

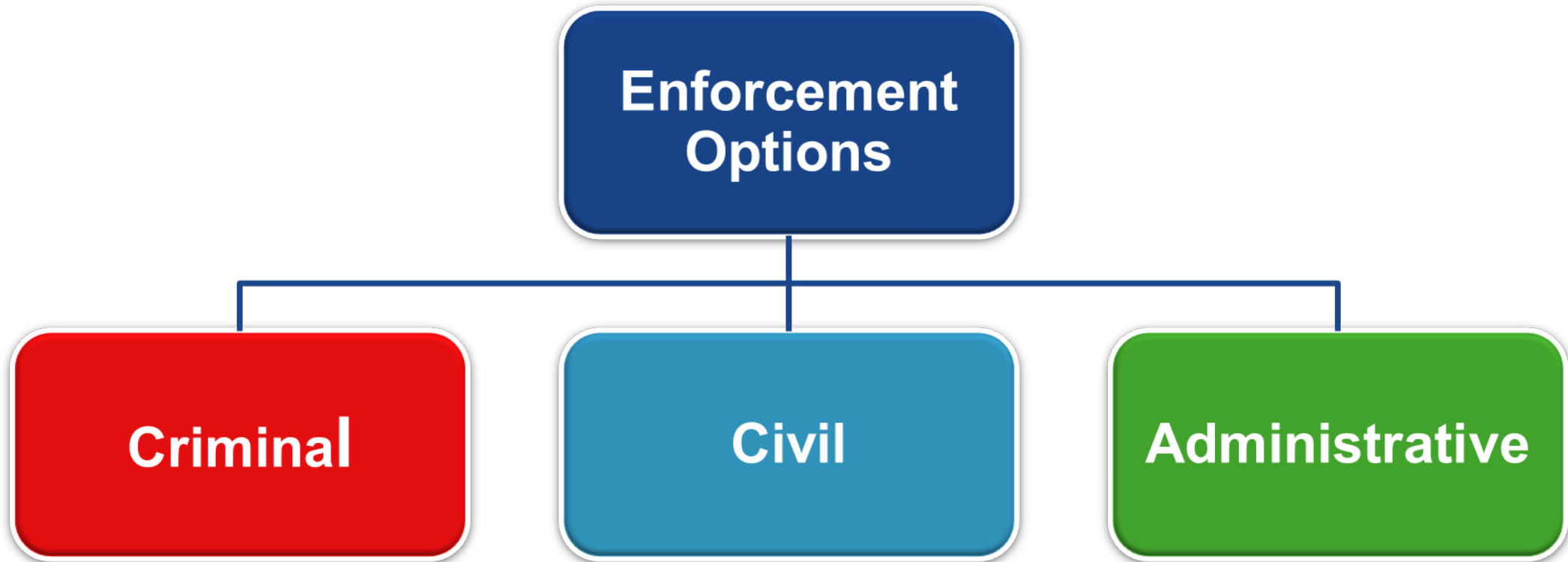


# Consequences of Committing Fraud





# Enforcement Actions

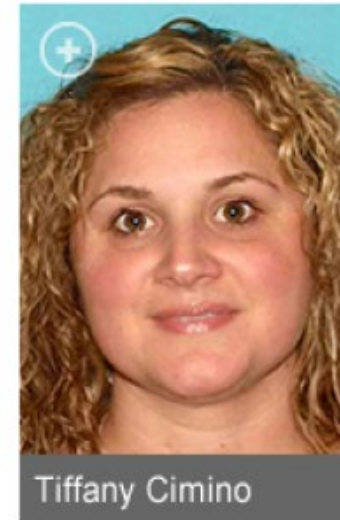




# Criminal Penalties

- Prison sentence
- Probation
- Restitution

**Ocean County Man Sentenced to Seven Years in Prison for Using His Home Improvement Companies to Steal Over \$1.4 Million from Homeowners Whose Homes Were Damaged by Superstorm Sandy**  
*Jeffrey Colmyer and his wife, Tiffany Cimino, stole Sandy relief funds provided to victims to rebuild*



Example from: April 26, 2023, HUD CDBG-DR Problem Solving Clinic and July 31, 2019, HUD OIG Grantee Disaster Fraud Presentation



## Civil Penalties

- Damages payable to the Federal government for **each false claim** are three times the amount of the claim, plus a penalty in an amount ranging up to \$11,000
- False claims liability includes payments received when Government relied on information in work proposal, certification of cost or pricing data, request for payment or in progress reports.
- “Knowledge” includes “**deliberate ignorance**” or “**reckless disregard for the truth.**”



# Administrative Penalties

- Suspension – typically not more than 1 year
- Debarment – typically not more than 3 years
- Sanctions are government wide, regardless of the Federal agency involved
- Can be indefinite
- Used with conviction for fraud
- Criminal and civil judgements



# Your Role – Preventing Fraud, Waste, and Abuse







# Steps to Take – Policies and Procedures

## Create policies and procedures:

- Develop **written** procurement, program, and financial management policies that comply with federal requirements.
- Implement a **written** code of conduct and require all employees, officers, or agents engaged in the award and administration of contracts to read and sign a copy.
- Include **written** performance requirements and penalties (liquidated damages) for failure to meet requirements for contracts and agreements.



# Steps to Take – Duties

## Maintain separation of duties:

- Designate staff who will only receive goods or make payments, not both.
- Implement dual signature review to authorize payments.
- Ensure only duly authorized individuals make binding contracts.

Project Manager Name:	Project Manager Signature:	Date:
Purchasing Manager Name:	Purchasing Manager Signature:	Date:



## Steps to Take – Competency

### Provide competencies and training:

- Review procurement, program and financial policies and procedures for compliance with HUD and 2 CFR Part 200 requirements.
  - (Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards)
- Ensure that all personnel involved with federal programs have appropriate training and experience.



# Steps to Take – Record Keeping

## Maintain good record keeping:

- Each element has specific requirements:
  - Procurement
  - Program
  - Finance
- Grantee and subrecipients should post to websites:
  - Policies and procedures
  - Contracts using federal funds
  - Status of current procurements
  - Summary of all procured contracts





## Steps to Take – Ethics

### Uphold ethics and prevent conflicts of interest:

- Develop policies and procedures that prohibit personnel from personally gaining from recipient procurements or transactions.
- Ensure that all apparent or perceived conflicts of interest are mitigated.





# Steps to Take – Forms

## Strengthen forms:

- Include fraud notice on all forms (18.U.S.C.1001) or HUD fraud language.
- Forms should be professional-looking, clear and easy to read.
- Forms should indicate that federal funds are/may be awarded.
- Reinforces that the Contract/Agreement/Vendor documents have standards, formality, and consequences if abused.

SECTION 2: APPLICANT SIGNATURES	
<p>Warning: Any person who knowingly makes a false claim or statement to HUD may be subject to civil or criminal penalties under 18 U.S.C. 287, 1001 and 31 U.S.C. 3729. Under penalties of perjury, I/we certify that the information presented above is true and accurate to the best of my/our knowledge and belief. I/We further understand that providing false representations herein constitutes an act of fraud. False, misleading or incomplete information may result in my ineligibility to participate in this program or any other programs that will accept this document. Title 18, Section 1001 of the U.S. Code states that a person is guilty of a FELONY if he/she knowingly and willfully makes a false statement to any department of the United States Government.</p>	
<input type="text"/>	<input type="text"/>
Applicant Signature	Co-Applicant Signature <i>(If Applicable)</i>



## Steps to Take – Policy

### Develop specific anti-fraud policy:

- Define fraud.
- List examples of offenses that are prohibited.
- Policy should cover everyone.
- List actions that constitute fraud, waste and/or abuse.
- Require employees and contractors to report suspected fraud, waste or abuse.
- State the organization's commitment to investigate.
- State organizational commitment to report instances of fraud, waste and abuse to law enforcement.



# Steps to Take – Monitoring (1)

## Monitoring tips:

- Develop **written independent cost estimates** for every procurement action to support that costs are reasonable.
- Verify that providers of goods and services have not been debarred or suspended.
- Ensure services or items delivered and costs billed are consistent with the items in the corresponding purchase orders and contracts.







## Steps to Take – Monitoring (2)

### Monitoring tips:

- Rotate awards for micro purchases and small purchases among vendors when feasible.
- Structure agreements so that bank statements must be produced upon request.
  - Voided checks
  - Debit card transactions, ATM withdrawals
  - Duplicate payments
  - “Cash back” at stores, hotels, rental cars
  - Look for proof that un-related charges are not being paid with federal funds



## Steps to Take – Monitoring (3)

### Monitoring tips:

- Structure agreements so that credit card statements must be produced upon request.
  - Randomly select one month
  - Look at how charges allocated
  - Look for charges unrelated to program to which they were charged
  - Look for proof that un-related charges are not paid with federal funds





# Prevention Reminders

- Clearly define eligibility criteria.
- Incorporate signed certifications and fraud acknowledgements.
- Utilize checklists to document items required/requested of applicants.
- Maintain complete case management notes.
- Record document submittal method (mail, email, fax).
- Involve HUD OIG early at first indication of fraud.
- Cooperate with HUD OIG.
  - No subpoena required
  - Maintain original documents
  - Access to records





# Don't Hide Dirty Laundry... Wash it!

- **Occurrence of fraud alone is not a sign of a poorly run or mismanaged agency.**
- *Reaction* to fraud is what defines the management of an agency.
- Existence of a fraud policy and proper handling of fraud are deterrents.
- Addressing fraud:
  - Helps rid the industry of “bad actors.”
  - Allows management to close procedure gaps to ensure that the same fraud will not reoccur.



Credit: Karen and Brad Emerson CC BY 2.0



## What Should be Reported?

- Mismanagement
- Violations of laws, rules or regulations
- Theft of and fraudulent claims for funds

***Hotline complaints can be kept confidential,  
upon request.***

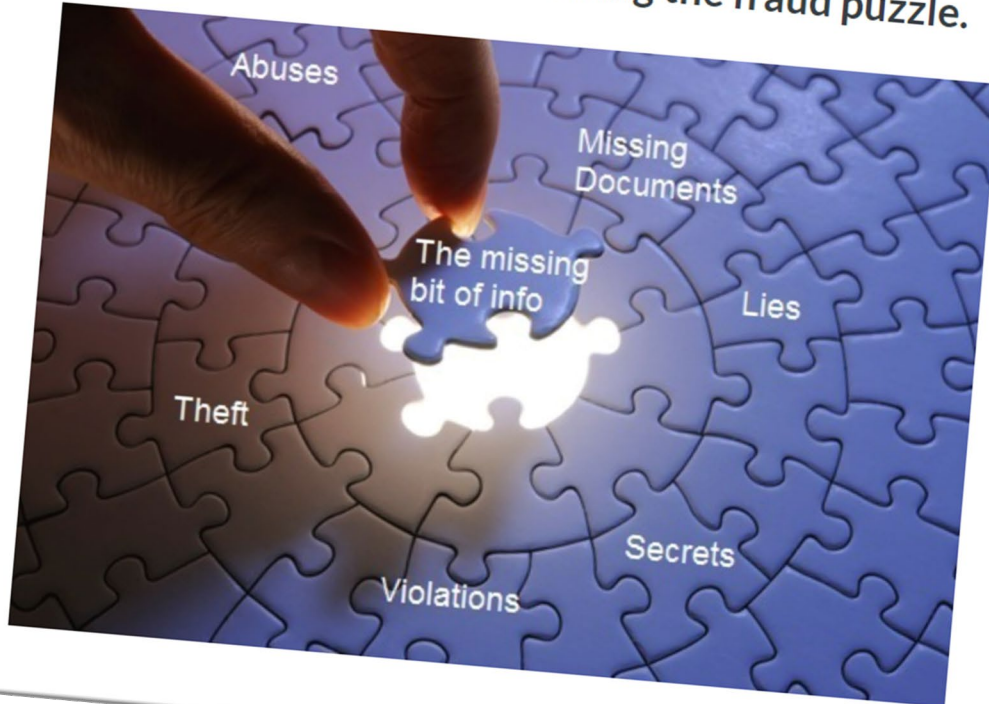
HUD OIG Hotline: [HOTLINE@hudoig.gov](mailto:HOTLINE@hudoig.gov)

800-347-3735



## For More Information...

TO STOP FRAUD: **BLOCK, IDENTIFY, AND TELL (B.I.T.)**  
Everyone has a **B.I.T.** in solving the fraud puzzle.



- For more information visit HUD OIG's "What You Can Do" page at: <https://www.hudoig.gov/fraud/what-you-can-do>.



## Additional Links



## Homeland Security

- DHS Privacy Training & Awareness:  
<https://www.dhs.gov/privacy-training>.
  - For the DHS online privacy course scroll down the Privacy Training page and click “*the same course*” link or go directly to <https://courses.dhs.gov/courses/course/privacy-dhs>.
- Federal Audit Clearinghouse:  
<https://facdissem.census.gov/Main.aspx>





# Questions?

- During the meeting, submit questions through Teams Q&A.
- Submit follow up questions to [Felicity.Gasser@hcd.ca.gov](mailto:Felicity.Gasser@hcd.ca.gov).







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