

Avoiding Pitfalls Fraud, Waste, and Abuse

The Importance of Compliance and
Control in Federally-Assisted Housing



Today's Speaker



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Today's Presentation

- What is Fraud, Waste, and Abuse (FWA)
- Defenses against FWA
 - Internal Control
 - Ethics
 - Red Flags
- Reporting FWA
- Fraud Audits and Investigations



Definition of Fraud

- The **intentional deception** perpetrated by an individual or individuals, or an organization or organizations which could result in a **tangible or intangible benefit** to themselves or others, or could cause **detriment** to others. Fraud includes **a false representation of a matter of fact**, whether by words or by conduct, by false or misleading statements, or by concealment of that which should have been disclosed, **which deceives and is intended to deceive.** ¹



Examples of Fraud



- Falsifying financial records to cover up the theft of money or state property is an example of fraud.

Definition of Waste

- The **intentional or unintentional**, thoughtless or careless expenditure, consumption, mismanagement, use, or squandering of Commonwealth resources to the detriment or potential detriment of the Commonwealth. Waste also includes incurring unnecessary **costs because of inefficient or ineffective practices, systems, or controls.** ¹



Example of Waste



- The unnecessary spending of state funds to purchase items that have no business purpose is an example of waste.



Definition of Abuse

- **Excessive or improper use** of a thing, or to employ something in a manner contrary to the natural or legal rules for its use. Intentional destruction, diversion, manipulation, misapplication, mistreatment, or misuse of Commonwealth resources. **Extravagant or excessive use as to abuse one's position or authority.** Abuse can occur in financial or non-financial settings. ¹

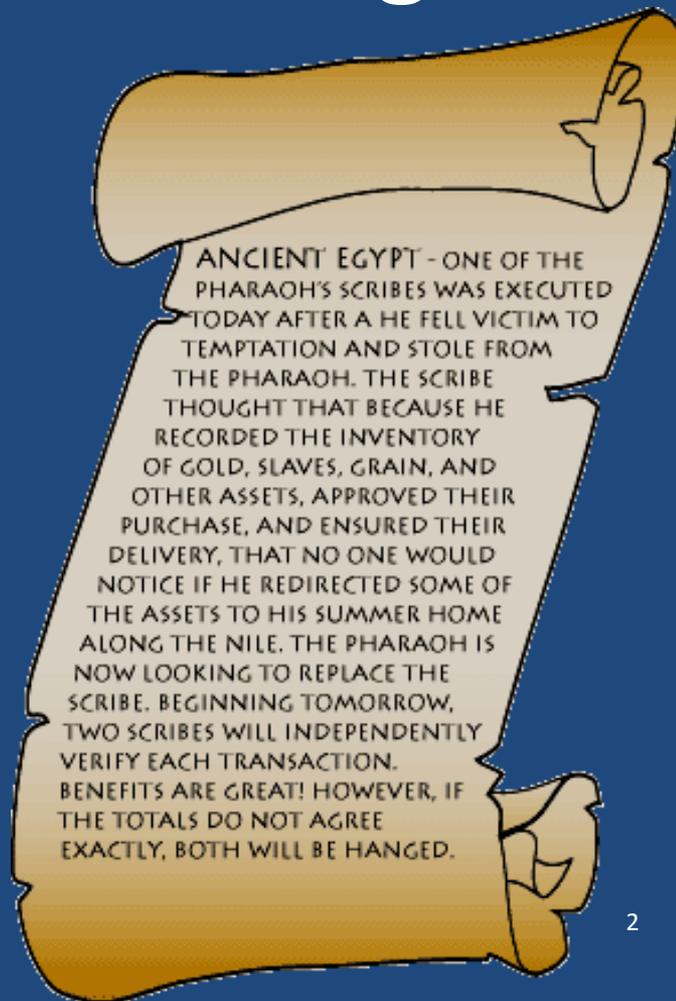


Example of Abuse

- The use of a government vehicle for non-governmental business and failure to complete a leaves slip when absent from work are examples of abuse occurring in a non-financial setting.



Defenses against FWA



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Internal Control

Before we discuss
what is Internal Control,
let's consider what
Internal Control is NOT ...



Internal Control



- It is not something you turn on and off at the flip of a switch.
- It is not something you spin for the auditors or the media.
- It is not just a buzz word.

Internal Control

- A process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives. ³



Internal Control

In plain English, internal controls are good old common sense practices. You are practicing good internal controls when you:

- Make travel plans
- Store and lockup valuable personal belongings
- Keep copies of tax returns
- Match credit card receipts to monthly statements
- Save for a rainy day or retirement
- Balance your checkbook



Internal Control

Five Components



- Control Environment
- Risk Assessment
- Control Activities
- Information and Communication
- Monitoring

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What is Internal Control

Types of Controls

- Preventative – keep unwanted activities from happening
- Detective – identify when unwanted things have happened



What is Internal Control

Examples of Preventative Controls



- Secured Areas
- Following established procurement rules and regulations
- Verifying the quality of materials before installation
- Certification, such as a PE, to ensure competency



What is Internal Control

Examples of Detective Controls



- Security Cameras or Alarms
- Inspections of electrical or plumbing systems
- Verifying payments are in accordance with the contract
- Verifying work was actually performed
- Verifying work was satisfactory

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Who is Responsible for Internal Control

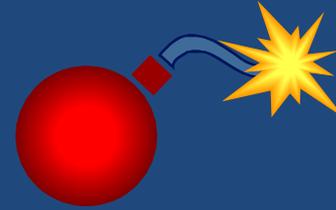
Everyone in an organization has responsibility for internal control.



What Happens When Internal Controls Fail?

Fraud

embarrassment



Inefficiency

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Loss of public trust!

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What Happens When Internal Controls Fail?



- Report 2014-PH-1007
 - Procurement rules were not followed and work was not verified
 - Paid for 6 houses that were not demolished
 - Recommended repayment from non-federal funds
 - \$312,077 – ineligible
 - \$308,797 – not supported



Ethical Environment



- Tone at the Top
 - Do board members and senior executives set a day-in, day-out example of high integrity and ethical behavior? ³
- Reaction to Bad News
 - Does management react appropriately when receiving bad news from subordinates and business units? ³



Ethical Environment

- Employee Ethics
 - Is ethical behavior expected of employees and is unethical behavior addressed? ³
 - Are performance and incentive compensation targets reasonable and realistic, or do they create undue pressure on achievement of short-term results? ³



Monitor for Red Flags



- Apparent Conflicts of Interest
- Lifestyle exceeds salary
- Anomalies in Routine Charges
- Private Work done for Contract Administrator
- Alterations to Time Cards
- See more in handout from AGA.



Reporting FWA

- Where do I Report FWA?
 - Local Management or Internal Auditor
 - DHCD
 - Denise Ambrose, 804.371.7029
 - OSIG
 - 804.625.3255
 - State Fraud, Waste, and Abuse Hotline
 - Anonymous
 - 1.800.723.1615
 - HUD OIG Hotline
 - 1.800.347.3735



Reporting FWA

- Upon the discovery of circumstances suggesting a **reasonable possibility that a fraudulent transaction has occurred** involving funds or property under the control of any state department, court, officer, board, commission, institution or other agency of the Commonwealth, including local constitutional officers and appointed officials exercising the powers of elected constitutional officers, as to which one or more officers or employees of state or local government may be party thereto, **the state agency head, court clerk or local official in charge of such entity shall promptly report such information to the Auditor of Public Accounts (Auditor), the State Inspector General, and the Superintendent of State Police (Superintendent).**

Section 30.138 Code of Virginia



Fraud Audits and Investigations



- Audits
 - Performed when a fraud is suspected or done routinely to deter fraud from happening
 - Purpose is to identify fraudulent transactions
 - Often use data mining and analysis tools to identify transactions outside of the norm.



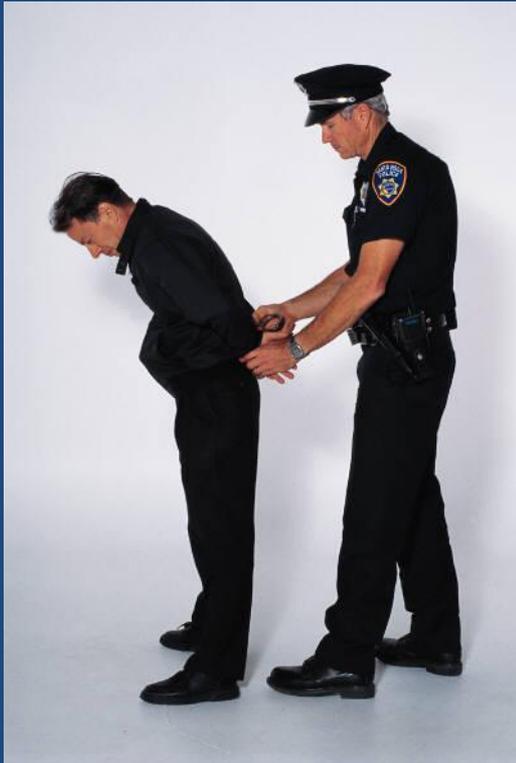
Fraud Audits and Investigations



- Investigations
 - Performed to determine if alleged fraudulent activity is taking place and if so how it is occurring
 - Administrative investigations are often performed by auditors
 - Criminal investigations are performed by law enforcement



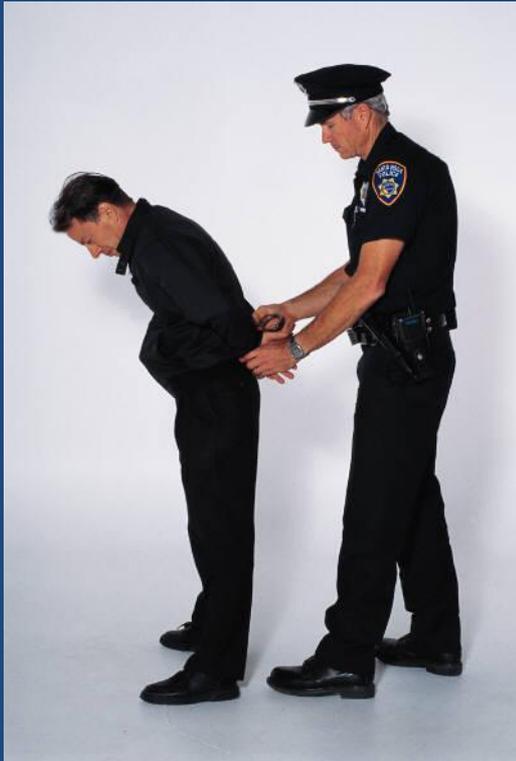
Fraud Does Happen



- The former director of the Gallup Housing Authority and another man have pleaded guilty to defrauding the federal government out of more than \$100,000. <<Names deleted>> formed a company together, MCL Construction. <<Name #1deleted>> submitted a fraudulent invoice from MCL to the GHA. <<Name #2>> approved the invoice for payment with HUD funds. That scheme netted more than \$75,000, In addition, <<Name #2 deleted>> made more than \$15,000 in personal purchases on a credit card linked to a GHA account.



Fraud Does Happen

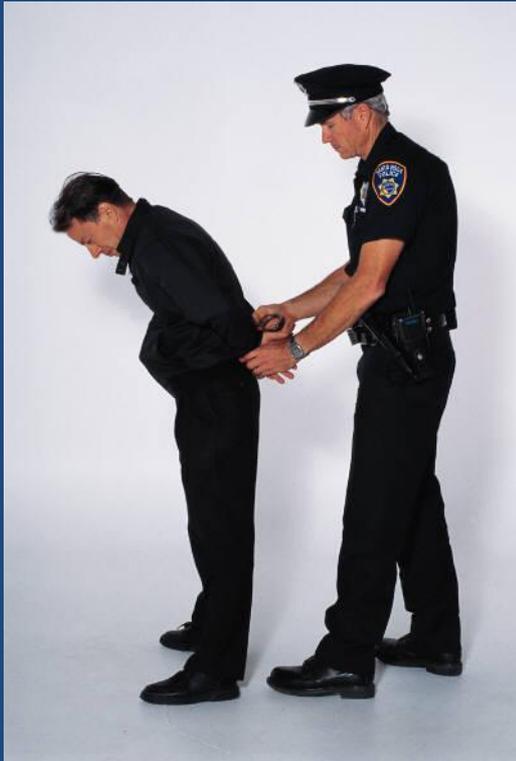


- Two people who operated a housing scam out of a vacant South Florida coin laundry have been found guilty of fraud. <<Names Deleted>> of Delray Beach were convicted by a federal jury on conspiracy, bank fraud and wire fraud charges. Testimony showed the pair **used the coin laundry address for a variety of fake companies**. Evidence showed they **falsified documents** to obtain bank loans to invest in low-income neighborhoods. Then they enrolled the properties in U.S. Housing and Urban Development low-income programs **to receive money from government vouchers**.

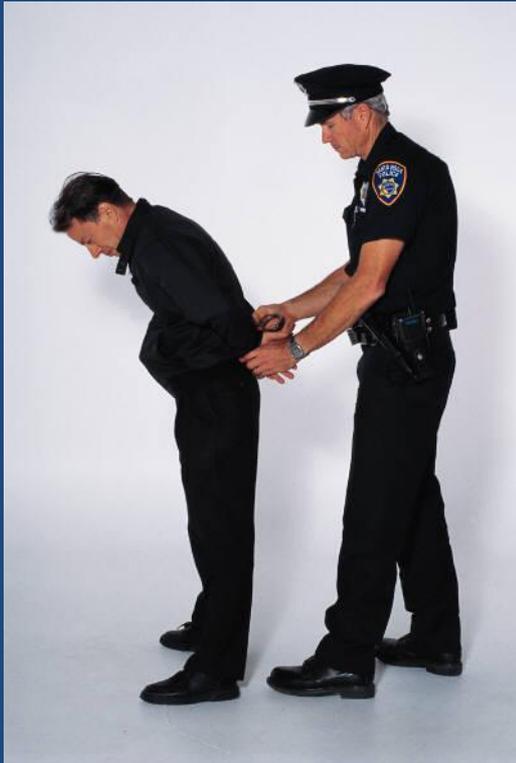


Fraud Does Happen

- A Dominican national living in Medway was convicted of fraudulently receiving more than \$120,000 in federal housing funds. After committing **passport fraud** to enter the U.S., <<Name Deleted>>, using the false name of Antonio Jose Rodriguez. He **applied for and received over \$120,000 in funds** from the U.S. Department of Housing and Urban Development's Section 8 program from March 2007 through September 2013.



Fraud Does Happen



- Following a five-day jury trial, a licensed accountant was convicted today of conspiracy and fraud charges for participating in a mortgage fraud scheme in southern Nevada and causing approximately \$1.6 million in losses to federally insured financial institutions. <<Name Deleted>>, 43, of Granada Hills, California, was convicted of one count of conspiracy to commit bank fraud and wire fraud and two counts of bank fraud. She is scheduled to be sentenced on August 5, 2014, and faces up to 30 years in prison and a \$1 million fine on each count..



Fraud Does Happen



- A former employee with the Philadelphia Housing Authority was charged in Pennsylvania federal court Thursday for participating in an alleged **scheme to purchase building materials with public funds before privately reselling the supplies and pocketing the profits.** <<Name Deleted>> disguised those fraudulent purchases as legitimate purchases for PHA, submitted those purchases to the PHA accounts payable department for payment and arranged for the fraudulently purchased materials to be delivered to private properties.



Fraud Does Happen



- Copies of the news accounts for the previous examples will be included in your online materials.
- These are a few examples obtained from simple Internet searches.
- How much more is there that has not been discovered?



Conclusion

- Fraud is an intentional act by a person that creates a benefit for themselves or a detriment to others.
- Internal Control is a process designed to provide reasonable assurance regarding the achievement of objectives including the prevention of fraud.
- All employees are responsible for Internal Control and should stay alert for red flags.
- Fraud really does happen and people go to jail.



References

1. State Fraud Waste and Abuse Hotline Manual page 1000-6.
2. Author Unknown.
3. Information provided by COSO.
<https://na.theiia.org/standards-guidance/Public Documents/COSO Control Framework n.pdf>



Questions

