



Integrity Bulletin

U.S. Department of Housing and Urban Development
Fall 2013

A Primer for PHA Commissioners

The U.S. Department of Housing and Urban Development (HUD) Office of Inspector General (OIG) is the Department's law enforcement and auditing arm and is responsible for investigating complaints of fraud, waste and mismanagement in HUD funded programs.

Reporting Fraud
Serious allegations of fraud should be reported to your local HUD Office of Inspector General or to the HUD OIG Hotline at:

<http://www.hudoig.gov/report-fraud>

This bulletin provides an overview of areas in which to prevent fraud and mismanagement. All public housing agency (PHA) commissioners should know steps to take in maintaining integrity at their PHA. HUD-OIG will issue more in-depth coverage for each of these areas in future bulletins.

WHAT IS THE OFFICE OF INSPECTOR GENERAL?

New commissioners may not be aware of OIG. OIG conducts audits and criminal investigations of programs administered by HUD, including the public housing and Housing Choice Voucher programs among others. Its authority to audit PHAs is derived from the Inspector General Act of 1978 as well as contracts between HUD and PHAs.

Over the last 3 fiscal years (2010 to 2012), OIG conducted 149 PHA audits. Questioned costs in these audits were more than \$152 million dollars. There were also 1,464 criminal convictions or pretrial diversions resulting in nearly \$54 million in recoveries, and jail time for many of the subjects. There were also 1,036 administrative sanctions placed on employees or tenants.

Not having policies and procedures in place to ensure that Federal requirements are followed can be costly to a PHA. If Federal funds are misspent they must be repaid with non-Federal dollars. Following are two examples:

- An audit of the Stamford CT Housing Authority questioned more than \$17.7 million in procurements, inter fund transfers, and unsupported disbursements. In addition to repayment, we recommended that the Authority be referred for a substantial default under section 17 of its annual contributions contract. ([Audit Report: 2012-BO-1002](#))
- An audit of the Sanford Florida Housing Authority found that the executive director and board spent or allowed to be spent HUD funds for costs that were abusive or ineligible, not reasonable, or not properly supported. Recommended was repayment of \$1.2 million and that the Director of HUD's Enforcement Center initiate appropriate administrative or civil action against the Authority's prior executive director, past board chairperson, and an employee, who were responsible for the long-term mismanagement or abuse of the Authority's public housing and Section 8 program funds or operations. ([Audit Report: 2012-AT-1002](#)).

OIG gives its appreciation to the Public Housing Authorities Directors Association for its input to this bulletin

AREAS OF CONCERN

PHAs have a great many responsibilities specified in the annual contributions contract, Federal regulations, HUD handbooks, and State and local laws. In complying with these requirements, it is important for commissioners and executive directors to focus on their fiduciary responsibilities to maintain integrity in the operations of their PHA. They need to be aware of the serious things that can go wrong and have policies and programs in place to protect the PHA from fraud, waste and abuse.

Common areas in which to look for fraud, waste and mismanagement that are frequently disclosed in our audits and investigations are:

- Bookkeeping and accounting
- Personnel and hiring
- Procurement and contracts
- Ethics and standards of conduct
- Independent audits and HUD reviews
- Charge cards

COMMISSIONERS' ROLE IN PREVENTING FRAUD AND ABUSE

Commissioners need to ensure that policies support the establishment of sound management controls to protect against fraud and abuse. Federal regulations may not provide specific guidance in every case, but commissioners should also know and abide by the applicable State and local laws and regulations on these matters. Below are some areas to which commissioners need to ensure that the PHA pays particular attention. We will issue more in-depth discussions of these items in future bulletins.

Bookkeeping and accounting: Policies and procedures for the handling of and accounting for funds is an area that demands your attention. Without good internal controls, separation of duties, and a strong system of checks and balances, PHAs often are subject to thefts and embezzlements by employees in positions of trust. While the majority of PHA employees are honest, it is the responsibility of the PHA to protect funds and assets against the few employees who succumb to the temptation to steal.

Personnel and hiring: Through effective screening the Executive Director can identify qualified personnel. The screening process for PHA staff should be just as inclusive as screening for residents. Commissioners should follow best practices and set policy for PHA employee screening that includes background, credit, and reference checks. This includes Commissioners' procedures for hiring Executive Directors.

Procurement and contracts: Goods and services must be procured in an effective manner in compliance with Federal, State and local laws. Weak procurement policies entice some employees to manipulate contracts to their personal benefit. Further, in these times of reduced budgets, the commissioners should be setting cost conscious examples and overseeing the PHA's spending.

COMMISSIONERS' ROLE IN PREVENTING FRAUD AND ABUSE

Ethics and standards of conduct: Federal ethics rules for procurement and contracts apply to PHA employees, but you should also be aware that there are probably applicable State or local laws. As part of your role in a setting the “tone for integrity” you should work with your executive director in ensuring that applicable rules are established and followed by all PHA staff. Consult your counsel for ethics briefings and materials. Be the standard bearer for these at the PHA through both policies and by example.

Tenant integrity: Policies and procedures for screening and selecting residents, and dealing with the problem of untruthful residents, are key aspects of PHA operations. A poorly developed or managed policy can affect the ability of the PHA to lease vacant units; collect rents; maintain units; and deal with serious substance abuse, crime and vandalism problems

An effective admission and occupancy plan ensures that:

- Residents are selected based on eligibility and other PHA criteria,
- Accurate and complete information is received from the resident,
- Resident data are properly verified, and
- Procedures exist for correcting errors or acting on inaccurate information.

Independent audits and HUD reviews: Commissioners should understand the purpose, intent and significance of audits and HUD reviews. A review and discussion of the audit or review results should be conducted to obtain information or isolate problem areas. The results of an audit or review should be viewed as a management tool. The PHA should establish an audit committee so that the independent auditor or HUD reviewer will have a point of contact. Also, this committee could identify areas of concern before an audit or review.

Credit cards: Next to cash, credit card abuse is the most common form of fraud. Commissioners must ensure that there are strong policies and controls surrounding the use of the PHA's credit cards. Not only are credit cards often used to circumvent procurement rules but many times they are used for the credit card holder's personal expenses which have nothing to do with the PHA's operations. When these cases are disclosed it causes great harm to the PHA's reputation as well as leading to considerable negative press.

COMMISSIONER DO's AND DON'Ts

This list of commissioner do's and don'ts is not all inclusive but it includes best practices for avoiding problems. However, even if a particular item on the list is not a requirement, experience has shown all of these to be a best practice for avoiding problems. Industry groups and your HUD office are also good sources for advice and best practices.



DO

- ✓ Pass resolutions and implement policies to prevent fraud, and address unethical behavior.
- ✓ Properly train staff on HUD requirements and local procedures.
- ✓ Understand clearly your roles and responsibilities to the PHA.
- ✓ Monitor performance periodically to ensure that policies and procedures are effective or whether adjustments are needed.
- ✓ Establish monitoring controls to prevent or expose conflicts of interest, fraud and abuse.
- ✓ Ensure that an audit is conducted annually and that commissioners review the report. Ask the auditors to include areas of concern in their review.
- ✓ Establish high ethical standards for PHA staff and act as positive role models.
- ✓ Learn about common risks and be alert for problems (for example, embezzlement, improper procurement).



DON'T

- ✗ Sign blank checks, or checks not backed up with bills, invoices, or vouchers.
- ✗ Allow deposits or disbursements controlled by signature.
- ✗ Allow reconciliation of bank statements by the person who signs the checks, if possible.
- ✗ Use PHA supplies, equipment, or staff for personal use.
- ✗ Use PHA credit cards for personal use even with reimbursement.
- ✗ Use PHA contractors for personal purposes while they are engaged in PHA work.
- ✗ Accept gifts or gratuities from people who do business with the PHA.
- ✗ Do business with the PHA while you are a commissioner.

WHAT ELSE CAN COMMISSIONERS DO?

In addition to setting strong policies, the commissioners should ensure that the PHA has implemented some form of quality control in all its operations. Typical of a quality control program is having a person (or persons), independent of the function, periodically check the work to ensure that policies and procedures are followed by all employees, including the executive director.



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