

Addressing Potential Fraud and Corruption Risks in Your Public Housing Authority



Public Housing Authorities (PHAs) have a mandate to provide safe, habitable spaces to their residents but face challenges like lack of access to funding for subsidies and staffing that help maintain public and affordable housing stock.

To address maintenance issues, PHAs must engage with outside vendors, but the process can be complex, lengthy, and time consuming. If not handled properly, the process of working with outside vendors can expose PHAs to fraud. Exposure to fraud can lead to negative consequences such as inflated costs for minor repairs, misallocated funds, decreased resident confidence, and bad residential living conditions.

There are steps PHAs can take to prevent, detect, and respond to fraud, bribery, and corruption schemes within their operations. By implementing robust internal processes, PHAs can safeguard against misconduct while upholding integrity in their practices.



Establish the Correct Processes and Protocols to Prevent Fraud

To ensure your organization is actively preventing fraud, you must first establish documented fraud risk management processes and procedures. This includes implementing a systemic approach to fraud prevention, solidifying financial and fraud risk management processes, conducting risk assessments, and ensuring an effective whistleblower program is in place.

At a minimum, PHAs should have board-approved policies for all aspects of finance and operations that should be maintained on an ongoing basis. By developing a systemic approach, PHAs are empowered to continuously review the effectiveness of their processes, controls, and compliance with regulations and internal policies. As technology grows more complex, PHAs can integrate advanced technology such as data analytics, AI, and machine learning to enhance the precision, efficiency, and coverage of continuous monitoring and auditing activities.

Another important aspect of preventing fraud is establishing a sound fraud risk management process. This includes performing a comprehensive evaluation of the existing fraud prevention, detection, and response strategies to identify any gaps or weaknesses that could be exploited. Engaging in this practice ensures that the approach to managing fraud risk is up-to-date, effective, aligned with best practices, and provides continuous feedback year over year. By implementing a fraud risk management process, organizations minimize the potential for financial and reputational damage.

Fraud, bribery, and corruption risk assessments are another key practice to enhance fraud prevention. These risk assessments take a targeted approach to identifying and evaluating the potential for fraudulent activities within your PHA. A risk assessment can assess the likelihood and impact of various fraud, bribery, and corruptions scenarios, considering factors such as vulnerabilities in financial controls, and the potential for insider threats. The objective of the risk assessment is to use its findings to develop and implement effective controls and strategies to detect, prevent, and mitigate these risks, thereby protecting the PHA's assets and reputation.

Finally, a critical part of fraud prevention is establishing a sound whistleblower program. Your PHA should evaluate the mechanisms in place for reporting unethical or illegal activities to ensure they are accessible, confidential, and secure for employees and stakeholders. This will also ensure that reports of misconduct are promptly and appropriately escalated to the relevant authorities within the organization for further investigation. Additionally, the review can assess the effectiveness and integrity of internal investigations, verifying that they are conducted impartially, thoroughly, and in a manner that protects the rights of all parties involved.



LEVERAGE DATA TO DETECT FRAUDULENT ACTIVITY

In addition to preventative measures, organizations must also arm themselves with the skills to detect fraudulent activity. A large part of detection is centered around the evaluation of vendor onboarding and the third-party due diligence process, but ongoing vendor evaluation and monitoring also play a key role.

The evaluation of vendor onboarding and third-party due diligence processes involves an assessment of the procedures and criteria used to vet and onboard new vendors or third-party service providers. This process ensures they meet the organization's standards for integrity and compliance and aims to identify and mitigate risks associated with third-party relationships (such as potentially fraudulent parties), including non-compliance with regulations.

In addition to evaluating vendor onboarding, conducting data analytics on onboarded vendors is critical in the fraud identification process. If a fraudulent or corrupt payment has been identified as the result of an internal investigation, it is recommended that the PHA perform an analytical review of its existing vendors and third-party relationships to identify schemes and potentially similar connections and or transactions. Your PHA should also independently evaluate your vendor payment process to understand how the approval process can align with the vendor diligence process.

In the current climate, proactive monitoring and review of transactions and data are essential to minimize fraud, waste, and abuse. Through advanced analytics, continuous transaction scrutiny, and predictive model development, PHAs can detect irregularities or suspicious activities early, allowing for timely intervention. This not only prevents the escalation of fraudulent activities but also deters potential fraudsters. By promptly addressing issues, PHAs can significantly reduce unnecessary costs. Therefore, proactive monitoring and reviewing monthly reports are effective strategies for maintaining financial integrity and promoting efficient resource use.

DEVELOP A FRAUD RESPONSE PLAN

Even if your organization is actively implementing the above processes to prevent and identify fraud, you must account for an effective response plan, should an instance of fraud occur. The most critical methods to enhance a response plan are through forensic accounting and an evolving remediation strategy.

Forensic accounting and other support for outside counsel conducting investigations allows parties to independently obtain and review the facts and circumstances when an issue of fraud or bribery has taken place. This is done using a combination of investigative techniques and data extraction tools. An investigative team will identify the individuals, entities, time frame, location, and extent of the potential fraud. Once the investigation is complete, they should summarize and present findings and provide recommendations and external notification to authorities and ultimately for remediation.

Perhaps above all other practices, PHAs should develop reasonable remediation plans. An effective remediation strategy should address identified bribery and corruption risks based on best practices in the PHA, along with specific findings from a concluded investigation. Although upfront prevention is the most effective way to deter widespread program irregularities, it's also important to establish a process for handling claims of potential abuse and taking corrective action when necessary.

If you're ready to put fraud prevention, detection, and remediation tactics in place at your PHA, get in touch with BDO today. BDO's Public Housing Authority practice has served over 400 PHAs and affordable housing providers and is a premier provider of industry education to PHA staff, executives, and HUD employees.

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