

Fraud, Waste, and Abuse

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Introduction

DCA has established procedures to detect fraud, waste, and abuse in accordance with the regulatory requirements established by HUD for CDBG-DR.

This chapter highlights procedures to prevent and detect fraud, waste and abuse, ensuring DCA and subrecipients administer CDBG-DR funds in compliance with all regulations. This includes processes to ensure subrecipients are following rules related to:

- Conflict of Interest
- Monitoring
- Financial management
- Contract management
- Federal reporting and documentation
- Environmental review
- Procurement
- Fair housing and Equal Opportunity laws
- Labor Standards

In addition to the regulations and methods described below, subrecipients should be familiar with DCA's 2.10.3 Prevention and Detection of Fraud, Waste and Abuse Policy.

DCA must ensure that its staff and subrecipients detect and respond to fraud, waste, and abuse in the administration and implementation of CDBG-DR funds.

Definitions

Fraud is any wrongful or criminal deception intended to result in financial or personal gain. Fraud includes false representation of fact, making false statements, or concealment of information. Examples include, but are not limited to, the following:

- Falsification of information in applications, contracts, or procurement processes.
- Billing for services not rendered or duplication of payments.
- Alteration of documents or forgery, which may include contracts, purchase orders, and invoices.
- Bribery or kickbacks.
- False claims or bid rigging.
- Theft, embezzlement, or other misapplication of funds or assets.
- Impropriety with respect to reporting financial transactions.
- Profiting on insider knowledge.
- Destruction or concealment of records or assets.
- Falsifying eligibility.

Waste is the careless mismanagement, consumption, or use of resources that cause unnecessary costs or detriment. Failure to observe laws, rules or regulations when handling public funds leading to a wrongful use of public funds may constitute waste and mismanagement. For example, incurring unnecessary costs resulting from inefficient or ineffective practices, systems, or controls, such as, but not limited to, the following:

- Purchasing unnecessary supplies, material, and equipment.
- Purchasing supplies without regard to cost.
- Using supplies, materials, and equipment carelessly, resulting in unnecessary waste and/or replacement.

Abuse is the excessive or improper use of something in a manner contrary to the natural or legal rules for its use. This can include intentional destruction, misapplication, or misuse of resources. Abuse can occur in financial or non-financial settings. Examples include, but are not limited to:

- Making procurement or vendor selections that are contrary to existing policies or are unnecessarily extravagant or expensive.
- Receiving favor for awarding contracts to certain vendors.
- Using one's position for personal gain.
- Failure to report damage to equipment or property.
- Creating unneeded overtime.
- Requesting staff to perform personal errands or tasks for a supervisor or manager.

Procedures to Detect and Prevent Fraud, Waste, or Abuse

Subrecipients must have adequate procedures to detect and prevent fraud, waste, and abuse. Therefore, as part of the evidentiary materials required before grant execution, the subrecipient must submit their internal policies to prevent, detect, and respond to fraud, waste, and abuse to DCA. The policies must indicate:

- How the subrecipient will verify the accuracy of information provided by contractors;
- Criteria to be used to evaluate the capacity of staff and contractors;
- Frequency with which the subrecipient will monitor contractors and which items will be monitored;
- A written Standard of Conduct and Conflicts of Interest policy that complies with [24 CFR 570.611](#) and [2 CFR 200.318](#), as applicable, which includes the process for promptly identifying and addressing such conflicts;
- Internal auditing and financial control monitoring procedures;

- How DCA will assist in investigating and taking action when fraud occurs within the subrecipients CDBG-DR activities and/or programs.

Note: All subrecipients receiving CDBG-DR funds for the first time shall attend fraud-related training provided by HUD OIG, when offered (Check [HUD Exchange](#) for training opportunities). Subrecipients are also encouraged to view the pre-recorded training offered on HUD Exchange ([Prevention of Fraud, Waste, and Abuse - HUD Exchange](#))

Informative Materials

In its efforts to prevent fraud, waste, abuse, or mismanagement, the subrecipient shall post informative materials for the public, including but not limited to, brochures, flyers, posters, and/or electronic content. These materials will help people identify fraudulent activities or schemes and explain how to report them. The subrecipient's Fraud, Waste, and Abuse Policy will also be provided to all staff working on CDBG-DR, partners, contractors, vendors, and DCA.

Contractor Monitoring

For contracts procured by the subrecipients, contractor capacity and risk will be evaluated by the subrecipient through the competitive procurement process and regular monitoring during the period of performance. Due diligence will be conducted prior to awarding contracts, including verifying contractor qualifications and licenses, and completing federal and state debarment checks. Monitoring of contractors will include an evaluation of fraud, waste, and abuse safeguards, particularly related to invoicing and payment reviews. Monitoring frequency and procedures will be outlined in the Subrecipient's monitoring plan, as described in the Monitoring Chapter.

Audits and Monitoring

Subrecipients are required to cooperate with DCA, HUD, HUD OIG and/or other oversight agencies in the undertaking of any risk assessment, program monitoring, or audits. DCA's subrecipient monitoring plan includes review of subrecipient administration, financial management, performance, reporting, and compliance with applicable federal cross-cutting requirements. Subrecipients must provide documentation upon request and supply it in a timely manner.

Subrecipients must also have sufficient internal auditing and monitoring procedures in place to support the prevention of fraud, waste, and abuse. These include:

1. **Regular Audits:** Conduct internal audits to review financial transactions and ensure compliance with all CDBG-DR requirements. These audits include a thorough examination of financial records, contracts, and other relevant documents.
2. **Risk Assessment:** Perform risk assessments to identify areas of potential fraud, waste, and abuse. This includes assessing the likelihood and impact of potential risks and implementing measures to mitigate these risks.
3. **Training and Awareness:** Provide annual training and awareness sessions for staff to ensure they understand the importance of preventing fraud, waste, and abuse. This includes training on CDBG-DR requirements, ethical standards, and reporting

procedures for suspected fraudulent activities. Subrecipients must also acknowledge that they are aware of and will obey DCA's 2.10.9 Conflict of Interest Policy.

4. **Whistleblower Protection:** Establish a safe and confidential reporting mechanism for staff to report any suspected fraudulent activities. Have policies in place to protect whistleblowers from retaliation.
5. **Segregation of Duties:** Duties are segregated among staff to prevent any individual from having control over all parts of a financial transaction. This reduces the risk of fraud and error.
6. **Documentation and Record Keeping:** Maintain comprehensive and accurate records of all financial transactions and approvals within SIROMS, as applicable. DCA's system of record ensures funds are managed with transparency and accountability, reduces the risk of misconduct, and facilitates auditing and monitoring activities of subrecipients.
7. **Regular Reporting:** Provide regular reports to DCA on the use of CDBG-DR project activities. These reports include detailed information on how funds have been used, the progress of our projects, and the results of our internal auditing and monitoring activities.

DCA will audit subrecipients no less than annually. Subrecipients must comply with the audit requirements of their grant agreements and respond to requests for documents in a timely manner. Subrecipients should refer to DCA's 2.10.13 CDBG-DR Internal Audits and Recipients Audits Policy, which outlines the process by which the DCA Office of Auditing provides both programmatic and financial oversight of grantee activities.

Reporting Fraud, Waste, and Abuse

The New Jersey Office of the State Comptroller (OSC) conducts all investigations of suspected fraud, waste, or abuse. DCA staff administering the CDBG-DR grant will collaborate with the State Comptroller's office to assist in investigations and take the prescribed action when fraud occurs.

Any person who suspects, witnesses, or discovers any instances of fraud, waste, or abuse relating to CDBG-DR funds should immediately report the information by utilizing any of the following means:

Phone: 855-672-8477

Postal Mail: P.O. Box 024 Trenton, NJ 08625

Email: comptrollertips@osc.nj.gov

Website: [NJ Office of the State Comptroller](https://www.nj.gov/treasury/comptroller/)

Reports may be made anonymously. The Department of Criminal Investigations will report all notifications of fraud, waste, and abuse to the HUD OIG Fraud Hotline (phone: 1-800-347-3735) or email (hotline@hudoig.gov). Members of the public can also contact the HUD OIG directly.

Investigations into reports of fraud, waste, or abuse will be carried out by the appropriate parties within the State's Comptroller Office or HUD OIG. Subrecipient staff should not confront a suspected individual or initiate an investigation on their own.

Other Irregularities

Allegations or complaints concerning fraud, waste, abuse, or mismanagement must be exclusively related to the improper use of CDBG-DR funds. Examples of situations that are not considered acts of fraud, waste, or abuse include, but are not limited to:

- Conflicts between employees and employers related to personnel actions, such as transfers, decreases, suspensions of employment and salary.
- Political-partisan issues.
- Actions to collect money for services rendered and not paid.

Allegations of irregularities that are not related to fraud, waste, abuse, or mismanagement will be referred to the appropriate offices or authorities.

Confidentiality

All allegations or complaints will be treated with confidentiality. Complainants may choose to remain anonymous and will not be required to provide their contact information when reporting alleged acts or suspected fraud, waste, abuse, or mismanagement.

Applicable Laws and Regulations

A list of applicable federal laws, Executive Orders, and State statutes, in whole or in part, to the CDBG-DR programs can be viewed in the Project Administration Chapter. This list may not be all-inclusive as there are many laws, regulations, and other requirements that may apply. To obtain copies of most of the federal publications, see the website address provided in the box to the right.

Below is a list of statutes and regulations subrecipients should consider when developing/refining their policies on Fraud, Waste, and Abuse. While Fraud, Waste, and Abuse applies to a multitude of statutes and regulations, familiarity with this list will help ensure a general understanding of the breadth and scope that Fraud Waste and Abuse encompasses.

General Statutes and Regulations

Title I of the Housing and Community Development Act of 1974

24 CFR Part 570: Community Development Block Grants

CDBG-DR Laws, Regulations, and Federal Register Notices

https://www.hud.gov/program_offices/comm_planning/cdbq-dr/regulations

Allocations for Community Development Block Grant Disaster Recovery and Implementation of the CDBG-DR Consolidated Waivers and Alternative Requirements Notices

87 FR 31636, May 24, 2022 – https://www.hud.gov/sites/dfiles/CPD/documents/CDBG-DR/87_FR_31636.pdf

87 FR 7859, January 18, 2023 – <https://www.govinfo.gov/content/pkg/FR-2023-01-18/pdf/2023-00721.pdf>

Relevance to Fraud, Waste, and Abuse: Provides the foundation for allowable activities and compliance for subrecipients. Misuse of funds, ineligible activities, or failure to meet program requirements (e.g., benefiting low-moderate-income households) can constitute fraud or waste. Subrecipients must understand these rules to avoid misuse.

Financial Management

[2 CFR Part 200](#): *Uniform Administrative Requirements, Cost Principles, and Audit Requirements*

Relevance to Fraud, Waste, and Abuse: Establishes strict requirements for the financial management of federal funds, including documentation, internal controls, and reporting. Noncompliance by subrecipients can lead to improper payments or fraud. Regular audits ensure accountability and prevent misuse.

Acquisitions/Relocation

[24 CFR Part 42](#): *Uniform Relocation Assistance and Real Property Acquisition Policies Act (URA)*

Relevance to Fraud, Waste, and Abuse: Requires subrecipients to provide proper compensation and relocation assistance to displaced persons or entities. Falsifying compensation records, underpaying displaced individuals, or improperly acquiring property can constitute fraud or abuse.

[24 CFR 570.606](#): *Displacement, Relocation, Acquisition, and Replacement of Housing*

Relevance to Fraud, Waste, and Abuse: Builds on URA to ensure compliance with specific CDBG-DR requirements for relocation and housing replacement. Noncompliance, such as failing to replace housing units or providing misleading records, could be considered programmatic waste or fraud.

Fair Housing, Equal Opportunity, and Accessibility

[24 CFR Part 5](#): *General HUD Program Requirements*

Relevance to Fraud, Waste, and Abuse: Mandates that subrecipients follow fair housing and non-discrimination requirements. Fraud or abuse can occur when funds are allocated in a discriminatory manner (e.g., excluding certain demographics) or fair housing laws are ignored.

[24 CFR Part 100](#): *Implementation of the Fair Housing Act*

Relevance to Fraud, Waste, and Abuse: Prohibits discrimination in housing-related activities. Subrecipients committing fraud may divert funds or discriminate against protected groups, which violates fair housing regulations.

Environmental Requirements

[24 CFR Part 58](#): *Environmental Review Procedures for Entities Assuming HUD Responsibilities*

Relevance to Fraud, Waste, and Abuse: Requires subrecipients to conduct environmental reviews before project initiation. Fraud can occur if subrecipients falsify reviews or bypass requirements to expedite projects, leading to waste or environmental harm.

Labor Standards

24 CFR Part 24: *Debarment and Suspension*

Relevance to Fraud, Waste, and Abuse: Prevents subrecipients from working with individuals or entities debarred for prior fraud, waste, or abuse. Allowing suspended parties to participate in projects risks further misuse of funds.

24 CFR 570.603: *Labor Standards*

Relevance to Fraud, Waste, and Abuse: Requires compliance with labor laws, including Davis-Bacon wage requirements, on federally funded construction projects. Fraud can occur if subrecipients misreport wages, misclassify workers, or underpay laborers.

Procurement and Contracting

2 CFR Part 200, *Subpart D: Procurement Standards*

Relevance to Fraud, Waste, and Abuse: Sets requirements for competitive bidding, transparency, and cost reasonableness in procurement. Fraud can occur if subrecipients engage in favoritism, kickbacks, or no-bid contracts, or fail to justify costs.

Civil Rights and Nondiscrimination

24 CFR Part 1: *Nondiscrimination in Federally Assisted Programs*

Relevance to Fraud, Waste, and Abuse: Prohibits discrimination in federally funded programs. Fraud or abuse can occur when subrecipients use funds to discriminate or fail to provide equal access to program benefits.

Duplication of Benefits

24 CFR 570.489: *Program Administration*

Relevance to Fraud, Waste, and Abuse: Prohibits subrecipients from receiving multiple forms of federal or other aid for the same expense. Fraud occurs if subrecipients fail to disclose prior aid or misuse funds intended to cover unmet needs.

Source Documents

File Name	2.10.3 Prevention and Detection of Fraud, Waste and Abuse Policy (Attachment)
File Name	2.10.9 Conflict of Interest Policy (Attachment)
File Name	2.10.13 CDBG-DR Internal Audits and Recipients Audits Policy (Attachment)