

APPLICABLE TO:

DATE: December 20, 2007

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Subject: Fraud Prevention & Minimization

Background

The Board of Directors of a non-profit or cooperative has a fiduciary responsibility for the organization and must be committed to protecting the organization's revenues, property and other assets from all attempts, either by members of the public or its own employees, to gain financial or other benefits by deceit (i.e., fraud).

Responsibility for Fraud Prevention

All members of a housing provider's organization are responsible for fraud prevention – the Board of Directors, property management/staff and tenants/members. The Board of Directors, however, has the overall responsibility for:

- assessing the risk of fraud in their organization;
- implementing financial processes and policies to ensure that fraud is prevented; and,
- responding to suspected fraud.

Fraud Assessment

There are various opportunities for fraud to occur in an organization. Fraud can take the form of:

- fraudulent or inflated supplier payments
- overpayment of staff or 'ghost' employees/contractors
- false vacancies or reduced rent
- theft from sundry & similar revenues

The following factors can influence the probability of fraud:

- non-existent or weak provider policies;
- lack of attention to fraud prevention by board;
- a high percentage of housing charges paid by cash;
- poor internal financial controls and segregation of duties;
- staff needs and opportunities.

Fraud Prevention Methods

By implementing some relatively minor changes in an organization, the potential for fraud can be significantly reduced. The following policies and procedures, adopted by housing providers, should provide a measure of assurance that effective processes are in place to deter and/or prevent fraud:

1. Formal Budget Review

- a. Ensure that the provider's budget is balanced and agrees to the NRH approved budget;
- b. Board members should know how much revenues are expected monthly/ annually and the allocation of the budgeted expenses;
- c. When financial reports are reviewed, significant under or over-expenditures (in both revenues and expenses to-date) should be followed up by board members;

2. Have Clear Rules and Explicitly Review with Staff

- a. The board should review all internal control policies with staff;
- b. When an issue arises, staff will not be able to respond that they were not aware of the rules, i.e., accepting cash for payment, not obtaining written quotes, etc.

3. Board Member Receive and Review Monthly Bank Statements

- a. A board member should be assigned to obtain and open the monthly bank statements/cancelled cheques;
- b. By requiring a board member to open & review the bank statement first, there is no opportunity for staff to remove or alter any cancelled cheques;
- c. The board member should do a cursory review of the deposits and cancelled cheques and follow up with staff on all questionable items;

4. Board Member Review of Arrears and Vacancies

- a. The board should review arrears and vacancy reports on a monthly basis;
- b. The board should follow up with staff when individual arrears are not being reduced monthly and/or if units are reported vacant for longer than 1 month;
- c. The board should occasionally check the unit reported as vacant to verify that the unit is vacant;

5. Ensure Segregation of Duties

- a. Segregation of duties is a priority in preventing fraud;
- b. If the organization only employs 1 staff person, a board member should be responsible for performing some specific financial duties; alternatively, the board could request the organization's auditor to complete additional year end work to ensure fraud is not occurring.

6. Ensure Computer Back Ups are Performed and Stored Off-Site

- a. A back up of the accounting/computer systems must be completed regularly and stored off-site to ensure that the accounting information can be retrieved should the computer/accounting program be corrupted.

7. Discuss Fraud Prevention with External Auditor

- a. Review additional work that auditors can perform to verify/confirm that fraud is not occurring.

8. Have Board Member Mail Out Annual Rental/Housing Charge Statements

- a. A board member should be responsible for mailing out annual rental/housing charge statements to tenants/members;
- b. From the annual statements mailed to members, a board member can quickly compare the total revenue received for the year (the addition of all statements) and can compare to the revenues reported in the financial records – if there is a significant discrepancy between the amounts, the member should follow up with staff;
- c. If a tenant/member disputes the amount recorded on their annual statement, it may raise a red flag that should be followed up by the board member.

Reaction to Suspected Fraud

If a board suspects that fraud is being committed (or has been committed), the following procedures should be followed:

1. Do not accuse or discuss the fraud with the suspect.
2. The Board should contact their lawyer to seek advice and discuss next steps.
3. Depending on the circumstances, assets may need to be secured – secure cash, change locks and passwords, etc.
4. The Board must call NRH and advise them of the situation. NRH can provide assistance in securing files and/or undertaking an initial financial review to verify/confirm that fraud is suspected.
5. Board priorities should be established – recovery of funds, deterrence, or punishment. The Board's reaction will depend on the priorities established. For example, the Police may be called if the fraud is significant and punishment is a priority. The board may need to engage a forensic audit to trace funds and diagnose the fraud. As a deterrent, the board may want to publicize the name of the person who was charged.
6. The Board should identify one board member to act as the spokesperson for the media, police, NRH and other tenants/members.
7. Regular updates and status reports must be provided to NRH.
8. The Board should use the findings of the forensic audit to review and change policies or practices, as necessary.

Service Manager's Role

When fraud is suspected in a housing provider's operations, the Board should contact their lawyer and Niagara Regional Housing. Depending on the circumstances, NRH may:

- o complete an initial financial/operational review to verify/confirm that fraud has occurred;
- o assist boards to secure/move files;
- o assist boards in their recruitment of temporary staff and/or forensic audit firms;
- o assist in the review of existing processes which may have contributed to the fraud opportunity; and,
- o recommend changes to policies and procedures to tighten internal controls and reduce opportunities for fraud.

Housing Provider’s Role

Housing providers are required to review their existing policies and procedures and make the necessary changes to ensure that internal controls are tightened and the potential for fraud is minimized. Attached are the following sample documents:

1. Fraud Prevention and Minimization Policy – (Appendix “A”)
2. Fraud Reporting and Investigation Policy – (Appendix “B”)
3. Fraud Checklist – (Appendix “C”)

Housing providers should review and adopt the attached policies for their own organizations. The fraud checklist should be reviewed by the board of directors on an annual basis to ensure that policies and procedures in place for fraud deterrence is preserved.

Housing Provider Property Management/Staff

Housing provider staff are required to forward this Notice to their Board of Directors.

If you have any questions regarding the above Notice, please contact your Housing Administrator at (905) 682-9201.



Lora Beckwith, General Manager

Enclosures:

1. Appendix “A” - Fraud Prevention and Minimization Policy
2. Appendix “B” - Fraud Reporting and Investigation Policy
3. Appendix “C” - Fraud Checklist