

Fraud, Waste, Abuse, and Improper Use of Funds - Policies and Procedures

Overview/Introduction

The City is committed to ensuring that all Community Development Block Grant–Disaster Recovery (CDBG-DR) funds are used in compliance with applicable federal, state, and local laws. To protect public trust and the U.S. Department of Housing and Urban Development (HUD) investments, the City has procedures in place to prevent, detect, investigate, and respond to fraud, waste, abuse, and the improper use of funds. The New York City Department of Investigation (DOI) serves as the City's Inspector General, playing a central and independent role in this comprehensive strategy.

The policies outlined here reflect federal guidance including [2 CFR Part 200](#), HUD OIG recommendations, and best practices from HUD's Fraud Risk Management Framework. These procedures apply to all recipients, subrecipients, contractors, and staff involved in CDBG-DR-funded programs. This policy also satisfies the requirements of Section III.A.1.a(2) of the HUD CDBG-DR Consolidated Notice.

Scope

These policies and procedures apply to all CDBG-DR programs administered by the City and its subrecipients, contractors, and consultants. This includes all persons or entities involved in the planning, execution, oversight, or evaluation of CDBG-DR-funded activities. DOI's jurisdiction extends broadly to any City agency, officer, elected official, or employee, as well as those who do business with or receive benefits from the City, encompassing all aspects of these programs and activities, including procurement.

Discussion

CDBG-DR funds are subject to rigorous regulatory and ethical standards. Fraud, waste, and abuse compromise program effectiveness and may lead to legal consequences, including debarment or criminal prosecution.

All personnel or entities must adhere to the internal control standards found in either:

- [Standards for Internal Control in the Federal Government \(GAO Green Book\)](#); or
- [Internal Control – Integrated Framework \(COSO\)](#).

Key risk areas include procurement, invoice review, program eligibility, construction and labor oversight. Vigilance is required at every step to ensure program integrity.

Definitions and Examples

- **Fraud:** A willful act to obtain something of value through false representation or concealment of material facts.

Examples: Submitting false invoices or timesheets, forging documentation, bribery, double billing

- **Waste:** The careless, excessive, or purposeless use of resources.
Examples: Paying for unused supplies, unreasonable travel costs, unmonitored change orders
- **Abuse:** Behavior that exceeds reasonable business practices, excluding fraud or legal violations.
Examples: Awarding a sole source contract without justification, circumventing procurement processes
- **Improper Use of Funds:** Use of CDBG-DR funds for activities not eligible under HUD rules or not tied to a national objective.
Examples: Paying unapproved consultants, charging ineligible admin costs, duplication of benefits

Roles

OMB CD Program & Evaluation Unit: The Program Unit serves as the primary link between HUD, OMB, and partner City agencies, ensuring all CDBG-DR projects maintain regulatory compliance. The Unit interfaces with partner agencies to collect required documentation and works proactively to identify and prevent ineligible activities or costs. **OMB CD Compliance & Monitoring (CM) Unit:** The CM Unit is responsible for conducting monitoring of CDBG-DR funded projects to assess compliance with federal, state and city rules and regulations. Additionally, the CM Unit serves as the liaison for external monitoring conducted by HUD's Office of Disaster Recovery and Office of the Inspector's General. The CM team will ensure that any findings identified in a monitoring are properly addressed and rectified in a timely manner.

OMB Internal Audit Taskforce: The Internal Audit is responsible for monitoring activities directly related to Federal and State grants for Disaster Recovery, including but not limited to CDBG-DR funds from HUD. Responsibilities include advising management personnel on financial control, risk management and governance issues. The internal audit function is intended to add value and improve OMB grant oversight operations through independent evaluations and consultation. The Internal Audit taskforce at OMB is independent of the CD Unit. This Internal Audit taskforce will also actively monitor the progress of grant expenditures to ensure compliance with HUD deadlines and requirements. The Internal Audit taskforce reports to OMB's Assistant Director of Accounting Services and advises the OMB CD Unit and the greater OMB-Managed Grants Taskforce.

Department of Investigation (DOI): DOI is the City's Inspector General, with independent oversight of the city government, inclusive of all spending. DOI works to prevent misuse of funds and fraud through systemic investigations, preventative controls, and operational reforms that improve the way the City runs.

NYC Comptroller's Office: The Comptroller's Office acts as the City's independent fiscal watchdog, preventing fraud, waste, and abuse by auditing city agencies, reviewing municipal contracts for integrity, and managing risks in City finances. As chief accountability officer, the Comptroller

scrutinizes expenditures and enforces prevailing wage laws to ensure taxpayer dollars are used effectively.

HUD: After CDBG-DR funds are appropriated, HUD engages in a rulemaking process for the new set of funds. Given each CDBG-DR appropriation differs in scope and activity, the length and complexity of the rulemaking process may vary widely. In addition to allocating funds, HUD is required to assess risk to grantees and to structure its allocations to minimize waste, potential for fraud, and abuse of federal grand funds.

Procedures to Detect and Prevent Fraud, Waste, and Abuse

Principles of Internal Controls

Effective internal control measures serve as the primary line of defense in safeguarding assets and are essential for preventing and detecting errors, fraud, waste, and abuse. Effective internal control is not merely a structural mechanism but requires the active involvement of all management and staff to maintain a healthy, participatory environment where controls are understood as a normal, day-to-day business function.

A sound internal control system is built upon five fundamental standards: the control environment, which establishes the ethical tone of the organization; risk assessment, the process of identifying and analyzing internal and external threats; control activities, which are the specific policies and procedures—such as segregation of duties, proper execution of transactions, and physical asset security—used to enforce management directives; information and communication, ensuring the timely flow of reliable data; and monitoring, the ongoing assessment of the system's performance. While these controls provide reasonable assurance, they cannot offer absolute protection against risks such as collusion or human error; therefore, management must continually balance the cost of establishing controls with the potential risks of undetected inappropriate actions.

Further information on internal controls and accountability directives can be found in the [Office of the Comptroller's Directive 1](#).

Procurement Review

The rules and regulations governing the procurement of all goods, services, and construction paid for by the City promote fair and open competition as well as ensuring all costs are necessary and reasonable. Procurement processes vary based on contract value, ranging from informal micro-purchases and small purchases requiring three quotes to formal sealed bids and competitive proposals for larger contracts. Agencies are required to maintain detailed records, such as solicitation lists and selection justifications, for several years to ensure transparency and audit compliance.

The System for Award Management (SAM.gov) is the official federal portal used to manage the lifecycle of government awards and verify vendor eligibility. Vendors must maintain an active registration to bid on contracts using federal funding; OMB and other City agencies use the portal to confirm a contractor is not debarred or suspended from receiving government funds.

New York City utilizes PASSPort as its primary digital platform to streamline the end-to-end contracting process and maintain vendor accountability. After enrolling, vendors can identify opportunities through a central repository and track contract process via a digital milestone tracker. Agencies use PASSPort to perform mandatory Responsibility Determinations based on vendor disclosures; additionally, the system allows contractors to view and respond to performance evaluations.

Subrecipient Responsibilities

Subrecipients must maintain written guidelines for procurement and financial policies that strictly adhere to both federal and city standards, following the more restrictive policy when requirements differ. Subrecipients are subject to the same price thresholds, SAM.gov registration requirements, and cost analysis documentation as any other federal funding recipient. Procurement records must be readily accessible for audits and maintained for four years following grant close-out. Improper conduct, including the falsification of documents or grossly negligent billing irregularities, can lead to a determination of non-responsibility and contract termination.

Personnel and labor costs require rigorous oversight to prevent improper billing or double-charging. Subrecipients must maintain timesheets for all staff funded by the grant, which are subject to random review by agency managers during bi-weekly payroll invoice processing. It is the subrecipient's responsibility to track staff time accurately and ensure that all reported hours align with the program scope defined in the subrecipient agreement.

Procurement Policy Board Rules and Agency Chief Contracting Officer Responsibilities

The Procurement Policy Board (PPB) rules establish mandatory procurement standards for New York City agencies to ensure air competition, efficiency, and protection against corruption, fraud, waste, and abuse. In instances where PPB rules differ from federal or state statutes, the more restrictive rules must be followed.

For each city agency, the Agency Chief Contracting Officer (ACCO) serves as the senior authority responsible for the oversight, management, and integrity of all procurement and contracting activities within their agency. They ensure compliance with PPB rules, manage vendor solicitations, and oversee the entire contract lifecycle.

Invoice Review

The first and second invoices from a new vendor as well as all invoices for subrecipients are subject to a complete review by the Program Unit before being approved. Invoice reviews will vary based on the specific project and required expenditures (such as purchasing tangible supplies versus expert services) However, invoices will be checked for essential identifiers such as:

- Vendor name
- Contract or purchase order number
- Service dates
- A clear description of the goods or services provided.
- Accuracy of price and quantities purchased
- Billed items alignment with scope of work and contract terms
- Sales tax charges

Excluding subrecipient invoices, the review process for vendor invoices beyond the second submission is less rigorous; however, the Program Unit must still verify all billed charges are eligible.

A complete invoice package must include the "proper invoice" supported by documentation that provides an audit trail of the work performed. This package typically includes evidence of completion for deliverables, signed and approved timesheets for labor costs (if applicable), and original receipts or invoices for subcontractor expenses. For construction or equipment contracts, the package should also feature an Engineering Audit Officer (EAO) report or certification, and for federally funded projects, it must include certified payrolls to document Davis-Bacon prevailing wage compliance (if applicable).

Unallowable Costs

- Cost plus a percentage of cost contracts.
- Alcohol, entertainment, and social events.
- Bad debts, collection costs, interest on borrowing, fines and penalties resulting from violations, and legal expenses for lost liability suits.
- General business development (promotional activities, public relations, gifts, souvenirs), lobbying, and expenditures intended to generate new business.
- Excess executive compensation, contributions, donations, officers' life insurance, and federal, state, or local income taxes.
- Costs for buildings used for the general conduct of government (with limited exceptions).
- Costs not directly related to the specific grant (e.g., Hurricane Ida) or for activities outside the approved scope of the Action Plan or Subrecipient Agreement.

Internal Controls for Contractor Review

Control procedures involve a combination of desk audits and field visits to physically verify requested payment amounts and evaluate the quality of work. Desk audits include spot checks for the accuracy of prices, quantities, and calculations, while field audits confirm that construction conforms to specifications and that work has progressed sufficiently to warrant payment. For construction activities, the Engineering Audit Office (EAO) leads the review of payment requests, performing field inspections to document material quality, scope completion, and the reasonableness of change orders. For cost-reimbursable contracts, auditors apply specific allowability tests, ensuring every expenditure provides a tangible benefit, is reasonable in amount, and adheres to consistent accounting principles. Rigorous verification of prevailing wage compliance is also required, which involves testing certified payrolls against worker sign-in sheets and daily construction management labor inventories. Additionally, agency staff must conduct employee interviews to ensure workers on federally funded projects are receiving required prevailing wages and fringe benefits. Interviews verify hours worked and job classification against contractor-submitted payrolls.

Documentation controls require agencies to maintain a robust audit trail, including SAM.gov registration checks to verify that contractors are not debarred and PASSPort responsibility determinations signed by the ACCO. A key control for change orders and non-competitive contracts

is the requirement for an independent cost estimate completed prior to receiving bids to justify price reasonableness. Final approval requires a formal EAO certification, stating that the payment request has been independently examined and is just and reasonable under the contract terms. Furthermore, strict Vendor and Subrecipient Disclosure Requirements mandate the disclosure of familial or financial ties to vendors and the reporting of any conflicts of interest within 10 business days. Subrecipients must also obtain pre-approval for all subcontractor relationships and adhere to HUD Conflict of Interest standards ([24 CFR 570.611](#)), which include an annual conflict disclosure and formal processes to identify, report, and resolve conflicts promptly.

To maintain integrity, DOI provides guidance on recognizing and avoiding wrongdoing, including bribery, unlawful gratuities, and official misconduct. Violations of the [City's Conflicts of Interest Law](#) are treated with extreme severity and can result in fines of up to \$25,000 per violation, suspension or removal from office, and potential criminal charges. Any potential fraud identified during audits must be immediately reported to the DOI as required by [Mayoral Executive Order 16](#).

Further information regarding internal controls for contractor review can be found in the Office of the Comptroller's [Directive 2](#) and [Directive 7](#).

Monitoring & Audits

The CM Unit will undertake centralized programmatic and financial monitoring of all CDBG-DR grant programs on behalf of the City. The frequency of these monitoring is dependent upon the risk-based assessment conducted by the CM Unit:

- Monitoring may cover but are not limited to financial compliance, eligibility verification, procurement integrity, procurement review, and performance outcomes.
- Monitoring is conducted to ensure compliance, identify deficiencies, and mitigate the risk of fraud, waste, and abuse.
- See the Compliance and Monitoring Policies and Procedures for detailed protocols

Additionally, according to OMB Circular A-133, any public agency or non-profit organization that cumulatively expends \$1,000,000 or more in Federal funds in a year must have an independent audit performed, consistent with the Single Audit Act of 1984. External Financial Audits will be done in accordance with generally accepted accounting principles (GAAP). An independent CPA firm will audit the City's GAAP financial statements each year. The Single Audit reports on the City's annual disbursement of Federal funds.

HUD's Office of Disaster Recovery (HUD ODR) generally conducts a monitoring of at least one CDBG-DR funded program per year. The primary purpose of a HUD ODR monitoring is to ensure that the program meets the CDBG-DR eligibility criteria and a national objective. The monitoring may include fiscal procedures and review of compliance with other HUD/federal requirements. Any grievous problems will result in a "Finding," which will require that the City respond in writing on how it will correct the problem. Findings may also result in a "disallowance," which means that HUD ODR found that the activities paid for with CDBG-DR funds were not CDBG-DR-eligible, and that City tax levy

funds will have to pay for those activities. HUD ODR will issue a letter stating that a monitoring has been completed when all Findings have been closed.

HUD Office of the Inspector General (HUD OIG) is an independent office within HUD that is responsible for conducting and supervising audits and performing investigations. The HUD OIG is authorized to do its work under several federal statutes, codes, and standards. HUD OIG is frequently involved in investigations of fraud, waste, and abuse, and may issue recommendations for the repayment of funds if it finds sufficient cause. Unlike HUD ODR, the HUD OIG does not have a set frequency of when audits are conducted.

The City Comptroller's Office generally conducts two types of audits, performance and financial. The Comptroller is required to audit every City agency at least once every four years. The Comptroller's audits examine the operations of all City agencies and evaluate initiatives to preserve and develop affordable housing, deliver quality public education, ensure access to public benefits, provide preventative homeless services and protect the rights of individuals and communities. Additionally, through its Bureau of Labor Law, the Comptroller Office investigates violations of prevailing wage laws, which may include the failure to pay prevailing wages and benefits, misclassification, and falsification of payroll records.

These monitoring activities contribute to the overall integrity that DOI helps to enforce through its broad oversight mandate, which includes investigating incompetence and mismanagement.

Training

OMB Community Development (CD)

OMB CD unit delivers ongoing and ad hoc technical training and assistance to partner agencies, subrecipients, contractors, and consultants focusing on activity eligibility, procurement protocols, and federal regulatory updates. The collaborative relationship between the CD unit and partner agencies allows for flexible, customized training that address specific programmatic needs and emerging challenges as they arise.

Conflict of Interest Board (COIB)

COIB provides mandatory, live, and interactive training every two years for City employees on Conflicts of Interest Law to prevent ethical violations, which can lead to fraud, waste, and abuse. These sessions use storytelling and role-playing, covering topics like misuse of city position, gifts, and post-employment restrictions. In addition to the live training, COIB offers printed and electronic materials, videos, and direct outreach such as eblasts for City employees on an ongoing basis.

HUD Office of Inspector General (HUD OIG)

HUD OIG provides targeted training – often via HUD Exchange and CDBG-DR Clinics – focusing on identifying, preventing, and reporting fraud, waste, and abuse in federal programs. Key areas include identifying bribery, kickbacks, bid-rigging, conflict of interest, and billing schemes, specifically for grantees.

Resources, Workshops, & Info Sessions for Public and Beneficiaries

To protect the public from contractor and disaster-related fraud, the City provides resources, guidance, and support to help beneficiaries recognize potential scams and avoid fraudulent activity. Program materials will include information about common fraud risks, including individuals falsely posing as government officials, insurance representatives, or contractors.

Educational Workshops and Information Sessions: The City may provide workshops, webinars, or informational materials to help beneficiaries make informed decisions when hiring contractors. These resources may include guidance on verifying contractor licenses, checking credentials, and identifying warning signs of fraud. Additional information is available through [NYC Buildings](#).

Consumer and Contractor Fraud Support: Beneficiaries will be provided with contact information for local and state agencies that investigate consumer and contractor fraud complaints. This ensures beneficiaries have access to appropriate reporting channels if they believe they have experienced fraudulent activity. Additional information and complaint resources are available through [NYC Department of Consumer and Worker Protection](#).

Reporting Fraudulent Activities: If a beneficiary suspects fraud, the City will assist them in identifying and contacting the appropriate enforcement or consumer protection agency. Beneficiaries are encouraged to report suspected fraud as soon as possible to help prevent further harm or financial loss. Fraud concerns may also be reported through the [NYC Department of Investigation](#).

Reevaluation of Unmet Needs: If verified fraud affects a beneficiary's ability to access services, complete repairs, or recover from a disaster, the City may reevaluate the beneficiary's unmet needs to determine whether additional assistance or support is appropriate.

Documentation and Communication: The City will document actions taken in response to reported fraud concerns and will communicate relevant updates or outcomes to the beneficiary, as appropriate, to support transparency and resolution.

Reporting and Investigation

DOI's Systemic Detection Methods

The Department of Investigation (DOI) employs a strategy that comprehensively addresses corruption through systemic investigations. These investigations are designed to uncover significant instances of corruption and are not limited to specific agencies, but may extend to any City agency, officer, elected official, or employee of the City, as well as those who conduct business with or receive benefits from the City, including contractors. This approach emphasizes a thorough examination of potential issues across various entities connected to the City.

- Mandatory Reporting and Document Access:

- Pursuant to Mayoral Executive Order 16, the Commissioner of Investigation and Inspectors General have the authority to examine, copy, or remove any document prepared, maintained, or held by any City agency.
- City officers, employees, and persons dealing with the City are required to answer questions concerning matters related to their official duties or dealings with the City, with protections against self-incrimination in criminal prosecution (except for perjury or contempt).
- Interference with or obstruction of a DOI investigation shall constitute cause for removal from office or employment or other appropriate penalty.
- Ethics IQ Quizzes:
 - DOI offers online ethics quizzes ("DOIQ") for City employees, companies doing business with the City, and non-profit agencies that work with the City. These quizzes are based on actual DOI cases and decisions, helping individuals recognize potential ethical dilemmas and wrongdoing.

Whistleblower Protection

The City's Whistleblower Law protects City employees, including employees of City entities headed by elected officials, from retaliation for reporting misconduct, corruption, criminal activity, conflicts of interest, gross mismanagement, and abuse of authority. This protection extends to officers and employees of contractors with a City contract valued at \$100,000 or more. To be protected, the report must be made to DOI, a City Council member, the Public Advocate, or the Comptroller. Employees and partners are protected under applicable whistleblower laws from retaliation when reporting in good faith, and retaliation will result in disciplinary action and possible referral to law enforcement.

All reports and investigations will be handled confidentially to the maximum extent permitted by law. Identities of whistleblowers will not be disclosed without their consent, unless legally required.

Investigation

Upon receiving a complaint:

1. The Compliance and Monitoring (CM) Unit will review and initiate a preliminary inquiry within 5 business days. If preliminary research indicates the complaint concerns **corruption, criminality, conflict of interest, gross mismanagement, or abuse of authority, it will be sent to DOI based on the severity.**
2. If warranted, a full investigation will be launched by DOI, including interviews, document reviews, and coordination with law enforcement, or HUD OIG. DOI's investigations are conducted independently by investigators.
3. All findings and corrective actions will be documented and tracked.
4. Contractors or subrecipients under investigation may be subject to payment holds, increased oversight, or termination.

How to Report

Reports can be made anonymously to the following:

- HUD OIG Hotline: **(800) 347-3735** or hotline@hudoig.gov
- Supervisors, compliance officers, or designated program integrity staff within your agency.
- The New York City Department of Investigation (DOI): Concerns of fraud, waste, abuse, corruption, criminality, conflicts of interest, gross mismanagement, or abuse of authority related to City agencies or those dealing with the City should be reported directly to DOI or one of its Inspectors General.
 - Online complaint: Submit a report via DOI's online complaint form.
 - Telephone: (212) 825-5959 or 212-3-NYC-DOI. General contact line is (212) 825-5900.
 - Mail: NYC Department of Investigation, 180 Maiden Lane, 16th Floor, New York, NY 10038.
 - In-person visits: DOI accepts walk-in complaints on Wednesdays, 10 a.m. to 4 p.m. at 180 Maiden Lane.
- Please note: If a complaint is initially received through internal City channels (e.g., the Compliance and Monitoring Unit), and it involves corruption, criminality, conflicts of interest, gross mismanagement, or abuse of authority, it must be forwarded directly and without undue delay to DOI or one of its Inspectors General for independent investigation. Anonymous complaints are accepted, and DOI does everything possible to protect the complainant's request for confidentiality.

CDBG-DR websites and materials will include public guidance on how to report concerns.

Further Information

- **Reporting Obligation:** The New York City Department of Investigation (DOI) emphasizes that any individual with knowledge of fraud, corruption, or misconduct involving City programs has an obligation to report it. Beneficiaries, contractors, and others involved in CDBG-DR projects are encouraged to report any concerns. Fraud can be reported anonymously through various methods, including the DOI's online complaint form, by phone at (212) 825-5959, or by mail.
- **Recognizing Wrongdoing:** The DOI also provides valuable guidance on how to recognize signs of wrongdoing and unethical behavior, such as conflicts of interest, bribery, and other forms of corruption. By understanding what constitutes fraud or misconduct, beneficiaries are better equipped to protect themselves from potential fraudsters.
- [2 CFR 200](#)
 - Subparts C–F: Uniform Guidance for financial and program management
 - [2 CFR 200.205](#): Federal awarding agency review of risk

- [2 CFR 200.207](#): Specific conditions for high-risk recipients
- [2 CFR 200.332\(b\)](#): Requirements for pass-through entities
- [24 CFR 570.611](#): Conflict of interest
- [HUD CDBG-DR Consolidated Notice](#)
- HUD OIG: <https://www.hudoig.gov>
- [NYC Comptroller Directive 7: Engineering audit standards](#)
- [CDBG Subrecipient Oversight Guidebook \(HUD, 2021\)](#)
- [CDBG-DR How to Manage Subrecipients](#)
- [New York City Department of Investigation \(DOI\)](#)
 - [About DOI](#): For information on DOI's jurisdiction, mission, and history.
 - [Reporting Corruption](#): For detailed instructions on reporting fraud, waste, and abuse to DOI.
 - [Recognizing Wrongdoing](#): For guidance on recognizing and avoiding corrupt activities and conflicts of interest.
 - [Reporting Obligation](#):
 - [Whistleblower Protection](#): For information on protections available to City employees and contractors' employees who report misconduct.