



CANADA MORTGAGE AND HOUSING CORPORATION

ABOUT YOUR GOVERNANCE

Conflict of Interest and Fraud

A sponsor group's Operating Agreement may or may not require that it develop and maintain a specific policy governing conflicts of interest and the prevention of fraud. CMHC encourages all sponsor groups to adopt such a policy, as it is an important step that groups can take to help prevent conflict of interest situations from arising and reduce opportunities for directors, employees and volunteers to commit fraud.

Conflict of interest

The first thing a group should do is develop a conflict of interest policy that sets out the following:

- Individuals within the group cannot obtain special benefits by being in a position of authority.
- Individuals or staff associated with the management of a housing project must avoid situations where they could benefit (or could be seen to benefit) through their position.
- Individuals, on recognizing a potential conflict of interest situation, must be prepared to explain the matter to their superior and/or the Board of Directors and take the necessary steps to remove themselves from the situation.

The policy should apply to all individuals associated with the management of a housing project, such as members of the Board of Directors, office and maintenance staff as well as any individuals who volunteer to do work on behalf of the housing project. Any of these individuals may have access to information or authority that they could use for personal gain.

When an individual receives a benefit through a conflict of interest situation, it may be considered a breach of the Operating Agreement between the group and CMHC and could jeopardize the ongoing subsidy assistance provided by CMHC.

Fraud

Fraud is the intent to deceive, involving a misappropriation of assets or a misrepresentation of financial or other relevant information. Fraud can include embezzlement, kickbacks, theft of rental receipts, fictitious expenses and outright theft. All of these acts can cause serious problems for a group in terms of cash shortages, court actions, legal fees and loss of reputation.

An act of fraud committed by an individual associated with the management of the group is a criminal act. Furthermore, it is an action committed against all persons associated with a housing project, as it can compromise the group's financial resources and its ability to provide housing to its tenants or members.

The most important deterrents to fraud are clear and tight controls that make it as difficult as possible for an individual, or a group of individuals, to commit a fraudulent act without being discovered. These include monitoring and oversight of operations, clear-cut policies and procedures that set out appropriate segregation of duties and are followed on a daily basis, as well as financial controls that apply to all individuals with responsibilities related to the management of the project, from volunteers to clerical staff through to the president of the Board of Directors.

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Some steps that may prevent opportunities for fraud are highlighted below:

Money handling and valuables

- All individuals handling cash or cheques should be bonded or covered by fidelity insurance.
- All project valuables (from petty cash boxes to power tools) should be locked away. All records and files must be orderly and up to date and be secured in a locking file cabinet.
- Under no circumstances should an individual be able to make out and sign a cheque to himself or herself. A cheque should never be pre-signed.



- Cheques must always be pre-numbered consecutively and posted to the appropriate journal on a regular basis. Groups should avoid having several different chequebooks in use at once.
- A credit card should not be issued in the name of the group to be used by individuals “on behalf of” the group. Any suppliers accepting a credit account must know who is—and who is not—authorized to make charges to the account on behalf of the group.
- Tenants and members should be encouraged to pay their rent by postdated cheques rather than in cash, and as far as possible, all project transactions should be made by cheque.

Purchasing of goods and services

- Wherever possible, a competitive bid process should be followed for equipment purchases or services, even when a relatively minor amount is involved. At the very least, a minimum of three quotes should be obtained for any repair or service work that is not covered by a contract.
- Purchase orders should always be used for buying equipment or services. The purchase order must be authorized by the appropriate individual, and the Board of Directors (or the person who has been delegated authority by the Board) must have approved the expenditure.

Special steps concerning individuals responsible for project management (if applicable)

- A policy should be drawn up that prohibits any individual from accepting gifts or tips from suppliers.
- Individuals permitted to claim travel, accommodation or meal expenses should provide receipts or supporting invoices, and these must be verified.
- Each individual must have a clear understanding of reporting relationships—his or her own and those of others responsible for project management.
- Action should be taken at the first signs of power struggles, bickering or hostility among those working for the project; such situations must not be allowed to intensify.
- Suspicious behaviour should not be ignored: an individual who avoids giving a straight answer or who is often absent may be trying to hide fraudulent activity.
- Repeated complaints about a particular person should be investigated, particularly if there is other evidence to arouse suspicion.
- Not only is it important to minimize opportunities that invite fraud, it is also important to take action when fraud is suspected or discovered. All people working for the project must understand what steps the organization is prepared to take in such cases.

For more information, please visit CMHC’s website at www.cmhc.ca/affordablehousing.