U.S. Department of Justice
Office of the Inspector General

GRANT FRAUD AWARENESS

September 2009

American Recovery and Reinvestment Act of 2009

- The $787 B. Recovery Act includes approximately $400 B. for grants / cooperative agreements, $60 B. for procurements, and $327 B. for tax cuts and other federal spending programs
- The DOJ received $4 B. of these funds which will primarily be disbursed via grants
- The Act's emphasis is Job Creation; Transparency; Accountability; and Oversight

What is Grant Fraud?

- Federal grant funds are awarded for a specific “public purpose” and grantees must use those funds as agreed and within certain parameters including the Office of Management and Budget Circulars and granting agency guidelines.

- Unfortunately, fraud, waste and misuse of these funds can and does occur. These issues can range from poorly managed programs to the extremes of intentional criminal fraud schemes.

- The consequences of grant fraud can include debarment from receiving future funding, administrative recoveries of funds, civil law suits and criminal prosecution– or a combination of all or some of these remedies.

- The best strategy to mitigate these risks is to increase awareness of the common grant fraud schemes and encourage appropriate risk management efforts to prevent issues or detect them as early as possible so grant funded programs have every chance of success and taxpayer funds are used as efficiently and effectively as possible.

Overview of the Grant Process

Application
Budget
Assurances
Grant Conditions
Eligibility

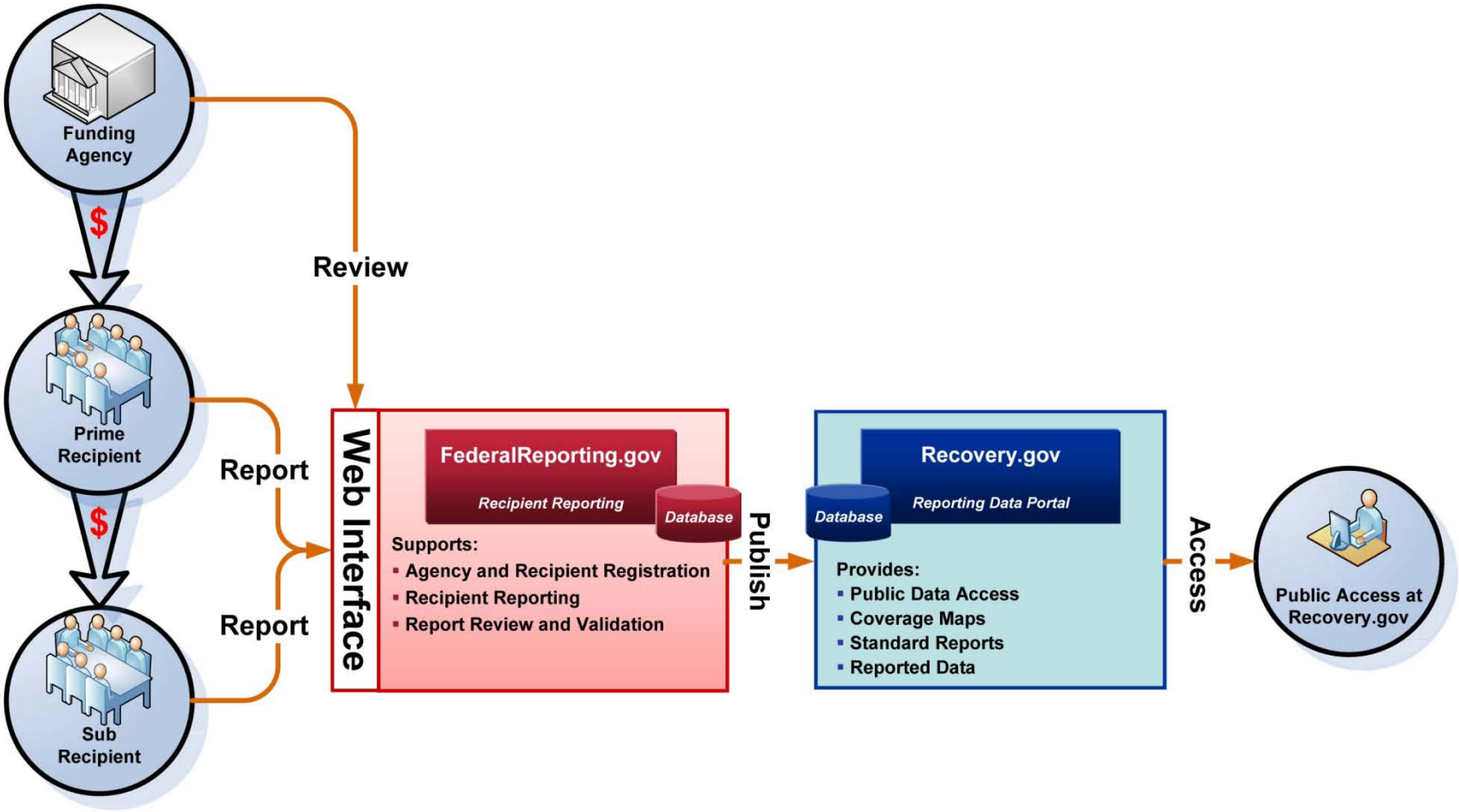
Performance
Draw downs
Monitoring
Gov't Management
Certifications

INTEGRITY BASED SYSTEM

Granting Agency Policies

OMB Circulars

Overview of Recipient Reporting



RECOVERY.GOV

Effect of Recipient Reporting

The Recovery Act states, “every taxpayer dollar spent on our economic recovery must be subject to unprecedented levels of transparency and accountability.”

Public scrutiny of Recovery Act programs will greatly increase the focus on indicators of fraud, waste, and abuse.

Indicators of Fraud, Waste & Misuse of grant funds can be due to a variety of causes and are rarely a simple "Black and White" issue– we must follow-up on all such concerns.

Mistakes

Gross Negligence

Criminal Fraud

Common Grant Fraud Schemes

Most fraud, waste, and misuse of funds falls into one or more of three general categories:

1. Conflicts of Interest
2. “Lying” or Failing to Properly Support the Use of Funds
3. Theft

Conflicts of Interest

- Grantees are required to use federal funds in the best interest of their program and these decisions must be free of undisclosed personal or organizational conflicts of interest– both in appearance and fact.

The typical issues in this area include:

- Less than Arms-Length Transactions: purchasing goods or services or hiring an individual from a related party such as a family member or a business associated with an employee of a grantee.
- Sub grant award decisions and vendor selections must be accomplished using a fair and transparent process free of undue influence. Most procurements require full & open competition.
- Consultants can play an important role in programs, however, their use requires a fair selection process, reasonable pay rates, and specific verifiable work product.

Case Example

- Background: an individual was assigned to purchase equipment using federal grant funds
- Possible Fraud Indicators: circumvention of the established procurement process; vendor complaints
- Scheme Identified: individual stole over $100,000 by directing contracts to bogus companies that he had established
- Result: 240 month prison sentence

“Lying” or Failing to Properly Support

- A grant agreement is essentially a legally binding contract and grantees are obligated to use their grant funds as outlined in the agreement and to act with integrity when applying for and reporting their actual use of funds. Grantees are also obligated to properly track the use of funds and maintain adequate supporting documentation.

<u>The typical issues in this area include:</u>

- Unilaterally redirecting the use of funds in a manner different than outlined in the grant agreement.
- Failing to adequately account for, track or support transactions such as personnel costs, contracts, indirect cost rates, matching funds, program income, or other sources of revenue.
- Grantee’s must accurately represent their eligibility for funding and cannot provide false or misleading information in their application or subsequent narrative progress or financial status reports.

Case Example

- Background: a grantee received federal grant funding for specific purposes
- Possible Fraud Indicators: an inability to provide sufficient and verifiable supporting documentation concerning the actual use of those funds
- Result: grantee paid the federal government over $300,000 to settle civil fraud allegations

Theft

- Theft is the most common issue in almost all organizations– including those that receive federal grant funding.
- People that embezzle funds can be extremely creative and appear very trustworthy– precisely why they can do so much damage to an organization and remain undetected for extended periods of time.
- Poor or no internal controls equals virtually inevitable theft. A lack of appropriate separation of duties is one of the most common weaknesses.
- Checks routinely written to employees as “reimbursement” of expenses and the use of ATM / Debit / Gift / Credit Cards must be carefully controlled and require robust oversight.

Case Example

- Background: a non-profit received $2.7 M. in federal grant funds to assist underprivileged children
- Possible Fraud Indicators: unsuccessful program; lack of internal controls; unexplained income
- Scheme Identified: funds diverted to pay for a wedding reception, building construction, plasma TV, and personal credit card bills; estimated loss of $450,000
- Result: 36 & 66 month prison sentences; full restitution

Ways to Mitigate the Risks

- Examine your operations to determine your fraud vulnerabilities.
- Implement specific fraud prevention strategies including educating others about the risks– the more people are aware of the issues, the more they can help prevent problems or detect them as early as possible.
- Maintain a well designed and tested system of internal controls.
- Ensure all financial or other certifications and progress reports are adequately supported with appropriate documentation and evidence.
- Identify any potential conflicts of interest issues and disclose them to the granting agency for specific guidance and advice.
- Follow a fair and transparent procurement process especially when utilizing consultants. Ensure the rate of pay is reasonable and justifiable and that the work product is well-defined and documented.

Contact Us

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For additional information, including ways to report suspected fraud, waste, and abuse related to DOJ programs, please see www.usdoj.gov/oig. For a listing of all federal inspectors general, please see www.ignet.gov.