Grant Fraud, Waste, Abuse and Mismanagement

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Illinois' Significant Grant Funding

- Illinois annually receives approximately $29 billion in federal assistance awards

- Per the CSFA, Illinois awards approximately $12 billion in state and federal pass-through grants to:
  - Support state and national infrastructure programs in transportation, homeland security, criminal justice, agriculture, health services and the environment
  - Fund scientific research, studies, and analyses, and
  - Further the social sciences, art, literature, and promote cultural enrichment

Grant Recipient's Responsibilities

▸ Federal grants are awarded to carry out specific goals and objectives. These funds are subject to certain regulations, oversight, and audit.

1. Grant recipients are stewards of federal funds.
2. Grant dollars must be used for their intended purpose.
3. Where applicable, grant recipients must account for costs and justify and document expenditures.

Bottom Line:

▸ Using federal grant dollars for unjust enrichment, personal gain, or other than their intended use is a form of theft.

▸ Individuals who do so may be subject to criminal and civil prosecution under the laws of the United States.

Grant Fraud Statutes

▶ State and Federal grant dollars are susceptible to several forms of financial theft
▶ Common state and federal violations, include:
  ◦ Embezzlement
  ◦ Theft or bribery in State or Federally funded programs
  ◦ False statements
  ◦ False claims
  ◦ Mail fraud and wire fraud

Each violation is subject to criminal prosecution, fines, restitution, and civil penalties

Who Commits Fraud?

- When business entities, individuals, communities, and other organizations receive federal grant dollars, they are entrusted with their appropriate expenditure

- Grant fraud is most often committed by:
  - Grant recipients, company officers, business partners, board members, and managers,
  - Bookkeepers, financial staff, and employees,
  - Contractors and subcontractors of the recipient, and
  - Recipient consultants

Most Common Fraud Schemes

▸ Grant fraud occurs in many ways

▸ Most common fraud scenarios include:
- Charging <u>personal</u> expenses as <u>business</u> expenses under the grant
- Charging costs which have <u>not been incurred</u> or are <u>not attributable</u> to the grant
- Charging inflated labor costs or hours, or categories of labor which have not been incurred
    - Fictitious employees, contractors, or consultants

Detect and Prevent Fraud

Grant recipient should protect their organization and its state and federal funds by detecting and preventing fraud:

1. Establish an adequate and effective system of accounting, internal controls, records control, and records retention.

2. Implement an internal compliance and ethics program that encourages the recognition and reporting of fraud, waste, or abuse.

3. Report suspected fraud to the Inspector General of the government agency that distributed the federal grant funds.

Elements of an Effective Fraud Prevention, Detection and Prosecution Framework

▶ **Preventative Controls**
  ◦ Proactive and occur prior to awarding grants, eligibility determination, and disbursing grant funds;

▶ **Detective Controls**
  ◦ Ongoing throughout the grant period – monitoring controls

▶ **Investigation and Prosecution**
  ◦ Control activities to provide sufficient documentation after a potential fraud has occurred

Preventative Controls

▸ Most efficient, and effective fraud controls
▸ Include an effective grant management system such as:
  ◦ Internal control system based on COSO's framework to minimize fraudulent, wasteful, and abusive activity in grant funding
  ◦ A Fraud Awareness Program to train program staff, management and sub grantees;
  ◦ Communication of rules, regulations, and grant requirements through training programs, policy and procedure manuals, contracts and grant agreements
  ◦ Whistleblower protection policies

Preventative Control Examples

- Grant and contractual agreements that specify grant requirements including controls to ensure programs objectives and compliance requirements are met;
- Sound fiscal controls to ensure that required financial and program reporting are:
  - Timely,
  - Accurate, and
  - Supported by adequate documentation prior to disbursement of funds

Preventative Control Examples

▸ Validation of documentation for <u>participant eligibility determination</u>:

◦ Verifying social security numbers with the Social Security Administration

◦ Verifying income from third parties (e.g., new hire reports, quarterly payroll records)

◦ Information sharing among government agencies to verify consistency

◦ Certifications from individuals, contractors and subgrantees to affirm accuracy of information provided and emphasize penalties for falsifying data

Preventative Control Examples

▸ For <u>contractors</u>:
- Verify Articles of Incorporation online with the Secretary of State
- Review audit reports, and other regulatory agency reports for non-compliance with contractual agreements, laws, payroll taxes
- Utilize SAM.gov to verify that the entity is not debarred or suspended from conducting business with the federal government
- Utilize the internet to obtain data on investigations, law suits or other issues that could impact the contractor's ability to meet contractual provisions, laws or regulations

Preventative Controls

- For <u>local government or nonprofit subrecipients</u>:
  - Review the Single Audit report and the status implementing correction action to prior findings
  - Obtain information from other state or federal grant performance, on-site reviews
  - Consider insolvency – does the entity's budget indicate financial constraints that could increase the likelihood of grant funds being inappropriately utilized
- If "red flags" are found, determine if the entity requires additional monitoring or controls (e.g., separate bank account or fiscal agent services)

Detective Controls

- Ongoing monitoring throughout the grant period
- Less effective than preventative controls, but essential to identify fraud, waste and abuse
- Often utilized when preventative controls can't be applied due to:
  - Time constraints,
  - Pressure to expedite project funding, or
  - Concerns about denying benefits to eligible recipients
- More costly to enforce detective controls if false claims / improper payments are made to ineligible recipients or contractors

Detective Control Examples

▸ Data mining techniques to find anomalies and inconsistent information – "red flags"
  ◦ Multiple instances of same social security number, FEIN or DUNS for different participants
  ◦ Multiple payments to the same address or bank account
  ◦ Duplicate payments for multiple programs (e.g., payroll records and training attendance records that document excessive hours, over 24 hours per day)
  ◦ Subrecipients with multiple grant programs charging indirect costs in excess of total costs incurred

Detective Control Examples

- Requiring invoices and accounting records to support reimbursement or cash draws on a random basis during the grant period
- Utilizing information system edits which provide error reports, multiple payments and other anomalies to investigate further
- Applying verification procedures of federal debarred or suspended status
- Considering all payments through the comptroller's office, coordinate efforts – number of grants, contract or payments to individuals

Inherent Limitations of Controls

- Controls have limitations and <u>cannot provide absolute assurance</u> of fraud, waste and abuse due to:
  ◦ Cost-benefit of controls
  ◦ Complex and sophisticated fraud schemes
  ◦ Employee and management circumvention of controls
  ◦ Collusion between government, contractors and other participants in grant and contracts funding with federal and state funds

Inherent limitations of controls

- It's *imperative* to have multiple layer of controls including fraud hotlines and whistle blower acts to assist in detecting fraud, waste and abuse
- An effective Fraud Awareness Program also includes
  - Public information regarding the program, eligibility requirements, contracting and reporting details,
  - Information to contractors, grant recipients, subrecipients so they can assist in detecting fraud

Investigation and Prosecution

▸ Necessary but most expensive elements of an effective fraud prevention and detection program – widely publicized

▸ Sometimes includes conducting a forensic audit of grant programs

▸ Aggressive investigation and prosecution is a key component of the overall fraud prevention and detection program

Sources of Fraud Schemes – Design Effective Prevention / Detection Controls

▸ Various established sources including:
  ◦ GAO reports
  ◦ OAG reports
  ◦ OIG reports from Federal agencies and OIEG at the state level
  ◦ Federal agency fraud awareness detection and prevention program information posted on their websites
  ◦ Internet search for the specific program

Recommended Reference Material

▸ Government Auditing Standards, Appendix 1,
  - Provides examples of weaknesses in internal controls, abuse examples, and a list of conditions that could indicate a heightened risk of fraud
  - Available in pdf and accessible text formats
    www.gao.gov

▸What can you do now?

Establish a Grant Fraud Committee

- Focus on key areas to improve the ability to prevent, detect, investigate, and prosecute grant fraud
  - Enhance information sharing related to grant fraud
  - Coordinate efforts among agencies to provide training on detecting, investigating, and prosecuting grant fraud
  - Conduct outreach to agency program managers and staff who administer grant programs and awardees / subrecipients
    - Coordinate prevention, detection, and investigation of grant fraud
    - Communicate best practices in these areas

Best Practices – Research Fraud Schemes

- Review audit and investigative reports issued by the inspector generals of the funding entity
- Conduct brainstorming sessions with program staff and management to identify potential or past fraud schemes
- Conduct monthly meetings with other agencies with similar programs; update issues and share information on prevention and detection controls
- Based on research, brainstorming and information sharing
  - Prepare a best practices manual and listing of fraud schemes
  - Train staff, contractors, and other interested parties
  - Post on state and agency websites

Report Federal Grant Fraud

▸ Most Federal government agencies have an Office of Inspector General (OIG) that is responsible for investigating allegations of fraud, waste, and abuse, and can be located at: WWW.IGNET.GOV

▸ Allegations of fraud can and should be made directly to the federal awarding agency's OIG, or a designated Hotline Office within many of the OIG offices

Report State Grant Fraud

- The State of Illinois has two agencies charged with investigating grant fraud:
  - Executive Office of the Inspector General
  - https://www.illinois.gov/oeig/Pages/default.aspx
  - Office of the Auditor General
  - http://www.auditor.illinois.gov/Hotline/Hotline.asp

Illinois is Successful when Grants are Successful

- Grant fraud, waste, abuse and mismanagement <u>cannot</u> be 100% prevented
- Due diligence, effective controls and a commitment to inspecting what we expect will make a difference
- Keep lines of communication open and engage all parties in fraud, waste and abuse prevention efforts

Questions?

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