



# First Friday Fraud Facts+

November 2, 2018

The Office of the Idaho State Controller Brandon Woolf distributes this newsletter as a public service and as a cost-effective method of increasing awareness about ways to detect and prevent fraud, waste, and abuse in government

## Grant Fraud

Each year, hundreds of billions of dollars are distributed in the form of federal grants to universities, local governments, organizations, and individuals to help support programs such as agriculture, transportation, human health, art, literature, and the social sciences.<sup>1</sup>

Grant funds are awarded for a specific purpose and recipients must spend those funds in accordance with Office of Management and Budget circulars, granting agency guidelines, contracts, etc.<sup>2</sup> Grant funds are susceptible to fraud, waste, and abuse.

According to the Department of Justice (DOJ), grant fraud typically occurs when award recipients attempt to deceive the government about their spending of award money. Recipients are likely to lie, cheat, and steal to carry out the fraud.<sup>1</sup>

### Common Types of Grant Fraud<sup>1</sup>

- Charging personal expenses as business expenses against a grant
- Charging a grant for costs which have not been incurred or are not attributable to a grant
- Charging inflated labor costs or hours, or categories of labor which have not been incurred (for example, fictitious employees, contractors, or consultants)
- Falsifying information in grant applications or contract proposals
- Billing more than one grant or contract for the same work
- Falsifying test results or other data
- Substituting approved materials with unauthorized products
- Misrepresenting a project's status to continue receiving government funds
- Charging higher rates than those stated or negotiated for in the bid or contract
- Influencing government employees to award a grant or contract to a particular company, family member, or friend
- Embezzlement, theft, or bribery

### Who Should Watch Out for Fraudulent Behavior?

The grant process is an integrity based system that relies on everyone to act with honesty in using public funds and in reporting on their use of such funds. Any concern about a lack of integrity anywhere in the process requires careful analysis and follow-up.<sup>2</sup>

Lying,  
cheating, and  
stealing

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Accountants, auditors, and other award recipient personnel are the key to defense against fraud. Those working with grant funds should ensure grant dollars are used for their intended purpose, accounting for all costs and justifying expenditures. Recipients of federal grants are awarded funds to carry out the goals and objectives identified in the grant agreement. These funds are subject to certain regulations, oversight, and audit.<sup>1</sup>

## How to Reduce the Risk of Grant Fraud<sup>1</sup>

Fraud can and does happen. The best strategy to mitigate the risks is to increase awareness of common fraud schemes and encourage appropriate risk management efforts to prevent issues or detect them as early as possible.

It is important to:

- Establish an adequate and effective system of accounting, internal controls, records control, and records retention
- Implement an internal compliance and ethics program that encourages the recognition and reporting of fraud, waste, or abuse
- Establish a means to communicate fraudulent activity
- Exercise professional skepticism when evaluating grant activity
- Examine specific operations and programs to identify fraud vulnerabilities
- Implement specific fraud prevention strategies including educating others about the risks
- Ensure all financial and progress reports are adequately supported with appropriate documentation and evidence
- Identify any potential conflicts of interest issues and disclose them to the appropriate officials for specific guidance and advice; you should ensure everyone involved in the grant process understands the conflict of interest prohibitions.

## Consequences of Fraudulent Behavior<sup>2</sup>

Using federal grant dollars for unjust enrichment, personal gain, or other than their intended use is a form of theft subject to criminal and civil prosecution under the laws of the United States. The DOJ Office of Inspector General warns that consequences of fraud can include debarment from receiving future funding, administrative recoveries of funds, civil law suits, and criminal prosecution.

## Reporting Fraudulent Behavior<sup>4</sup>

Grantees and government employees play an important role in fighting fraud, waste and abuse related to taxpayer funded programs. Offices of Inspector General exist within each government agency to help prevent and investigate fraud, waste, abuse, and misconduct within their respective programs. It is in everyone's best interest to ensure government operates at optimum efficiency and effectiveness and that grant funds are

used properly.

The U.S. Government Accountability Office (GAO) website provides a means to report fraud, waste, abuse, or mismanagement of federal funds through FraudNet (<https://www.gao.gov/fraudnet>).

FraudNet:

- Refers allegations to federal, state, and local law enforcement, and Offices of Inspector General, as appropriate
- Supports congressional investigation and audit requests
- Provides audit and investigative leads to GAO staff
- Offers support to government at all levels for establishing and operating hotlines<sup>4</sup>

Fraud concerns can also be communicated to appropriate personnel within your agency, your auditors, or the State Controller's Office.

### Case Studies<sup>3</sup>

#### University Agrees to Pay \$2.5 Million to Settle False Claims Allegations

A university in New England agreed to pay \$2.5 million in damages and penalties to settle civil allegations that the university submitted false claims on approximately 500 federal grants awarded to them.

The federal government awarded the grants for work to be performed by two of the university's specialized service facilities. The grant awards were made by numerous federal agencies including the Department of Defense, the Environmental Protection Agency, the National Science Foundation, and the National Aeronautics and Space Administration.

The government specifically alleged that the university submitted grant applications containing incorrect or overstated information about anticipated expenses. The university charged certain expenses that were not properly chargeable and submitted invoices to the government for three types of grant expenses. First, the government claimed that the university did not utilize a proper basis for setting and regularly updating its billing rate structure, as required by federal law. The university's failure to revise and appropriately set its billing rate structure resulted in numerous false claims being submitted for payment to the United States. Second, the government argued that the university failed to follow federal law for calculating how extra compensation should be paid to university faculty members for additional work on grant supported research activity and that improper excess charges were therefore charged to the grants. Finally, the government declared that some of the grants required cost sharing or matching by the university and that the university failed to provide the requisite cost sharing or matching.

The university has also entered into a compliance agreement with the federal government that requires the university to make significant changes in its grant administration program. In addition, the university must certify that it has in place an adequate compliance program for preventing fraud and false

Prevent,  
Detect,  
and stop  
fraud

billings to federal grants.

#### Former Grantee Employee Sentenced for Embezzlement

An employee of an EPA grantee was sentenced in U.S. District Court for the District of Oregon to 21 months in prison, followed by 36 months of probation, and was ordered to pay \$268,863 in restitution. In addition, the employee was suspended from participation in federal procurement and non-procurement activities. The employee was the former office manager of a Soil and Water Conservation District in Oregon, a recipient of EPA grant funds.

As the office manager from the year 2000 until her resignation in June 2005, the employee was solely responsible for managing the finances of the organization to include making purchases and paying bills. While employed, she devised a scheme to embezzle money from the organization to pay for personal expenses. She made unauthorized charges to a credit card belonging to the organization for personal items including clothing, vacations, gifts, jewelry, and furniture. She then paid the credit card bill with the organization's funds, some of which were derived from EPA grants.

#### References

- <sup>1</sup> Grants.gov. (n.d.). "Grant Fraud & Scams". Retrieved from: <https://www.grants.gov/web/grants/learn-grants/grant-fraud.html>
- <sup>2</sup> Office of Inspector General. (n.d.). "Grant Fraud Awareness". Retrieved from: <https://oig.justice.gov/hotline/docs/GrantFraudHandout.pdf>
- <sup>3</sup> Office of Inspector General (n.d.). "When Good Money Goes Bad". Retrieved from: [https://www.epa.gov/sites/production/files/2015-09/documents/epa\\_oig\\_grant\\_fraud\\_brochure.pdf](https://www.epa.gov/sites/production/files/2015-09/documents/epa_oig_grant_fraud_brochure.pdf)
- <sup>4</sup> U.S. Government Accountability Office. (n.d.). "Report Federal Fraud, Waste, Abuse and Mismanagement". Retrieved from: <https://www.gao.gov/fraudnet>

## Contact Us

**CAFR@sco.idaho.gov**  
P.O. Box 83720  
Boise, ID 83720-0011

(208) 334-3100

Visit us on the web at  
[www.sco.idaho.gov](http://www.sco.idaho.gov)