

Grant Fraud Indicators

A significant amount of federal dollars is lost each year to grant fraud. As a result of the recently enacted American Recovery and Reinvestment Act of 2009 (ARRA), grant spending will increase significantly. This guide is designed to help those GaDOE employees who administer and monitor grants aware of possible grant fraud indicators.

What is a Grant?

Grants are an important tool used by government agencies to achieve goals. They are legal instruments through which funds are transferred to support a public purpose.

According to www.usaspending.gov :

“A federal grant is an authorized expenditure to a non-federal entity for a defined public or private purpose in which services are not rendered to the federal government.” Grants are categorized as either formula or project grants. Formula grants are awarded to state or local governments, in accordance with distribution formulas prescribed by law or administrative regulation for activities of a continuing nature not confined to a specific project. Project grants are funded for specific projects to be completed within a fixed or known period of time. Projects can include fellowships, scholarships, research, training, experiments, evaluations, planning, technical assistance, surveys, and construction.

General Grant Fraud Indicators

These indicators may indicate fraud, waste, or abuse related to grant funded programs. The existence of such indicators does not necessarily mean that problems are present, but that the program may require additional scrutiny, follow-up, or analysis.

1. An underperforming or failing grant program. Grantee is dishonest about performance or completion of the grant.
2. A program that by its design or purpose is difficult to objectively assess or track. For instance, a grant to buy equipment is easier to monitor than a program to increase awareness about a particular issue.
3. A grantee that is unresponsive to reporting requirements or requests from GaDOE, or others to provide documentation or other information about the status of their program. Grantee has lengthy unexplained delays in producing requested documentation.
4. “Ghost” or non-existent employees. This is difficult to ascertain but excessively high administrative costs or high employee counts may be indicators.
5. Members of the Board overseeing the program are related to program staff or Board is ineffective.

6. Inconsistent or illogical explanations from a grantee about how they are using federal funds or the status of their program.
7. The identification of unapproved sole-source or no-bid procurements.
8. Funds used to pay for generic, non-specific, or nebulous consulting.
9. The use of funds that is materially different from the approved grant budget.
10. Any information that indicates the grantee lacks proper internal controls, such as separation of duties. This can occur whenever one person is given too much responsibility or control or many of the financial duties are assigned to one staff.
11. Any queries from local, state, or federal law enforcement or audit offices concerning potential fraud issues related to the grant program.
12. Any questionable or unusual transactions immediately preceding the end of a grant award period.
13. Any related party transactions such as hiring family members, purchasing goods or services from a company owned or controlled by individuals associated with the grantee. Any transaction conducted at less than an “arms-length.”
14. Unclear, unsupported or inconsistent indirect cost rates. Indirect cost rates must be approved, supported, and properly applied.
15. Any information related to forgeries of signatures, alteration of invoices, receipts, timecards or other documentation. Missing signatures is also another red flag.
16. Any evidence that a grantee is receiving previously undisclosed support from another federal, state, local, or private entity for the same program currently being funded by GaDOE.
17. Illogical or unusual financial drawdown transactions or reporting on financial status reports.
18. Excessive, illogical, or unmonitored high risk transactions such as cash, credit, debit or gift cards, or checking accounts.
19. Photocopied documents instead of originals. Copies are of poor quality or illegible.
20. Missing documentation for key business areas, such as not having an operating manual, not having written policies or procedures.
21. Lack of oversight to enforce regulations.
22. Overly complex organizational structure.
23. A lack of qualified employees to perform the work called for in the grant.
24. Employees of the grantee appear to be living beyond their means.

Management Related Grant Fraud Indicators

Management sets the tone of an organization through its control environment. The control environment provides both discipline and structure to the organization; therefore, GaDOE staff must consider management characteristics and influence over the control environment not

only as fraud risk factors but also as fraud indicators along with the general grant fraud indicators. Possible management fraud indicators are listed below. This list is not meant to be all-inclusive and should not preclude GaDOE employees from considering other fraud indicators that they might identify.

1. Failure to display and communicate an appropriate attitude regarding the importance of internal control, including a lack of internal control policies and procedures; ethics program; codes of conduct; self-governance activities; and oversight of significant controls.
2. Displaying through words or actions that senior management is subject to less stringent rules, regulations, or internal controls than other employees.
3. High turnover of senior management.
4. Hostile relationship between management and auditors or program monitors. This would include domineering behavior towards the auditor or monitor, failure to provide information, and limiting access to employees of the organization.
5. Failure to establish procedures to ensure compliance with laws and regulations and prevention of illegal acts.
6. Indications that key personnel are not competent in the performance of their assigned responsibilities.
7. Adverse publicity concerning an organization's activities or those of senior management.
8. Lack of, or failure to adhere to, policies and procedures requiring thorough background checks before hiring key management, accounting, or operating personnel.
9. Inadequate resources to assist personnel in performing their duties, including computers, access to information, and temporary personnel.
10. Failure to effectively follow-up on recommendations resulting from external reviews or questions about financial results.
11. Nondisclosure to the appropriate government officials of known non-compliance with laws, regulations, or significant contract or grant provisions.
12. Directing subordinates to perform tasks that override management or internal controls
13. Undue interest or micromanagement of issues or projects that most knowledgeable individuals would identify with a substantially lower level manager.
14. A manager claims disinterest or having no knowledge about a sensitive or high profile issue in which you would expect management involvement.
15. Constant over usage or inappropriate use of cautionary markings on management or organizational documents such as "Attorney Client Privilege/Attorney Work Product," "For Official Use Only", or other markings indicating an item is business sensitive or has a higher security classification than is appropriate.

Definitions

Fraud – generally accepted government auditing standards describe fraud as a type of illegal act involving the obtaining of something of value through willful misrepresentation. Black's Law Dictionary defines fraud as a false representation of a material fact, whether by words or by

conduct, by false or misleading allegations, or by concealment of that which should have been disclosed, which deceives another so that he cast, or fails to act to his detriment.

Ex. Grantee creates fake invoices to receive payment for services not performed

Abuse – involves behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary business practice given the facts and circumstances. Abuse also includes misuse of authority or position for personal financial interests or those of an immediate or close family member or business associate. Abuse does not necessarily involve fraud, violation of laws, regulations, or provisions of a contract or grant agreement.

Ex. Grantee hires their brother as a contractor

Waste – a reckless or grossly negligent act that causes funds to be spent in a manner that was not authorized or represents significant inefficiency and needless expense. Waste relates primarily to mismanagement, inappropriate actions and inadequate oversight.

Ex. Grantee does not adequately manage contractors and pays them for services not related to the program.

Sources and Links:

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<http://www.usdoj.gov/oig/special/s0903/final.pdf>
2. *Fraud Indicators in Procurement and Other Defense Activities* - The U.S. Department of Defense Office of the Inspector General
<http://www.dodig.mil/inspections/APO/fraud/scenariosIndicators.html>
3. *A Guide to Grant Oversight and Best Practices for Combating Grant Fraud* (February 2009) National Procurement Fraud Task Force (NPFTF) – Grant Fraud Committee
<http://www.neh.gov/whoware/oig/reports-pdf/GrantOversightGuide.pdf>
4. *Guide to Opportunities for Improving Grant Accountability* (October 2005) Domestic Working Group – Grant Accountability Project
http://www.nsf.gov/oig/Grant_Accountability_Guide_1005.pdf