

GRANT FRAUD AWARENESS

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

Fraud Assumptions

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

Fraud Consequences

The consequences of 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.

What is Grant Fraud?

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. Most issues of fraud, including grant fraud, essentially relate to “lying, cheating, and stealing.”

Overview of the Grant Process

The grant process is an “Integrity Based System”—we rely 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.

The “Fog of Fraud”—what is really happening?

Indicators of fraud, waste & misuse of grant or other public 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 to determine what is really happening.

The Keys to Success

The keys to preventing, detecting and stopping fraud are professional skepticism and communication. We must all follow-up on issues that cause concern and share such information with the appropriate officials.

Common Grant Fraud Risks

Conflicts of Interest

Grantees are required to use funds in the best interest of their program. Decisions about the use of funds must be free of undisclosed personal or organizational conflicts of interest— both in appearance and fact. Typical issues 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.

“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.

Typical issues include:

- 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, subcontracts, 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.

Theft

Theft is the most common issue in almost all organizations– including those that receive federal grant funding. Some considerations:

- 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 equal 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.

Risk Mitigation

We cannot stop all fraud, but there are ways to reduce the risk. They include:

- Examine your specific operations & programs to identify 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. Consider the benefits of a fiscal agent.
- 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 appropriate officials for specific guidance and advice. Ensure everyone involved in the grant process understands the conflict of interest prohibitions.
- Ensure there is a fair, transparent, and fully-documented 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.
- Follow-up with unsuccessful or unresponsive grant-funded programs– what is really occurring?

Communicate Your Concerns

Share your concerns related to fraud, waste, and abuse of government funds with others including the appropriate Office of the Inspector General.

U.S. Department of Justice, Office of the Inspector General
Federal Offices of Inspectors General

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