

Compliance and Ethics Week

Detecting and Preventing Fraud on Grant Projects

Donna R. Kiley, Associate Director

Jeneeta C. Howe, Compliance Associate

November 2, 2015

Fraud in the Grants Context

- 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 (OMB) regulations and granting agency guidelines.
- Unfortunately, fraud, waste and misuse of these funds can and does occur.
 - **Fraud** is a deliberate deception to secure an unfair gain
 - **Waste** is the unnecessary incurrence of costs as a result of inefficient practices, systems or controls
 - **Abuse** is the intentional misuse of authority, position, funds, or resources for personal gain

Consequences of Fraud

- Program impairment/failure
- Administrative: cancel awards; recover funds; withhold future funds; special conditions, suspension & debarment
- Civil law suits: False Claims Act; triple damages
- Criminal prosecution: prison; fines; restitution/asset seizure

Civil law suits: Triple damages

Audit Findings Material Settlements

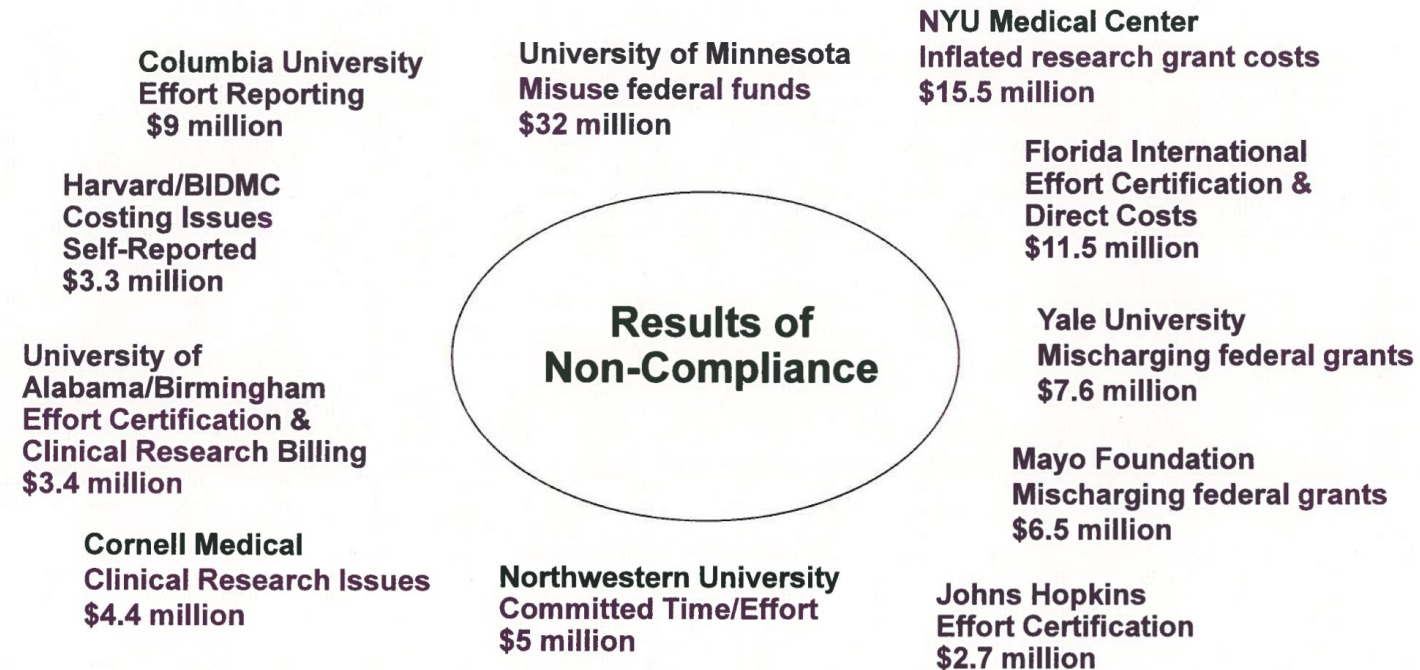
Institution	Amount	Reason
University of Minnesota	\$32M	Misuse
NYUMC	\$15.5M	Inflated research costs
FIU	\$11.5M	Effort certification & direct costs
Mayo	\$6.5M	Mischarging grants
Northwestern	\$5M	Effort
Cornell	\$4.4M	Clinical research
UAB	\$3.4M	Effort & clinical research billing
Harvard/BIDMC	\$3.25M	Costing
Johns Hopkins	\$2.7M	Effort
East Carolina	\$2.4M	Questioned costs
USC	\$400k	Questioned costs
UCSF	\$92.5k	Animal care

Audit Findings & Corrective Actions

October 2015
24

Civil law suits: False Claims Act

Significant FCA Settlements



Fraud Prevention

- Indicators of Fraud, Waste & Misuse of grant funds can be due to a variety of causes and may be imbedded within greater issues. (Rarely ever “black and white”.)
- Management’s role in deterring fraud:
 - Monitor Current Grant Administration Trends
 - Maintain auditable documentation
 - Maintain a well designed and tested system of internal controls.
 - Implement specific fraud prevention strategies
 - Examine your operations to determine your fraud vulnerabilities.
 - Communication and Training

Fraud Detection

➤ Conflicts of Interest

- Employees who work on funded programs- especially those involving research- should be required to disclose any personal or organizational relationship that might compromise the integrity of a funded project.

➤ Failing to Properly Support the Use of Funds

➤ 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 unmanaged real or apparent conflicts.
- Beware of:
 - 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.
- 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 consultant.
 - Ensure that there is a fair selection process and reasonable pay rates that are justified by specific and verifiable work product.

Example 1

Background:

An individual was assigned to purchase equipment using federal grant funds.

Possible Fraud Indicators:

Circumvention of the established procurement process; no documented disclosures of conflicts.

Scheme Identified:

An individual stole over \$100,000 by directing contracts to bogus companies that he had established.

Result:

240 month prison sentence.

Failing to Properly Support the Use of Funds

- 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
- Beware of:
 - 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.
- Ensure all financial or other certifications and progress reports are adequately supported with appropriate documentation and evidence.

Example 2

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

- 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.
- Beware of:
 - 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.
 - Poor or no internal controls
 - Talking point:
 - A lack of appropriate separation of duties is one of the most common weaknesses.

Example 3

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

Misuse of funds

- “It is clear that serious errors of judgment were made by a former Research Foundation employee in the handling of RF expenditures. Upon learning of these inappropriate and unethical actions, the RF employee in question was terminated, and the campus took immediate action to assume direct oversight of RF operations on campus...”

Challenges to Detecting Fraud

Challenges to Detecting Fraud

- Cultural barriers
- Technical barriers
- Regulatory barriers

Helpful Tools

- Site Visits
- Desk Reviews
- Audits
- Financial Reconciliations
- Data Analytics

Actions to take when fraud is suspected or detected

➤ To report suspected fraud:

- Reports can be made to supervisor, department head, or chair
- OM or Deputy OM
- RF Ethics Hotline
 - www.Compliance-helpline.com/rfsuny.jsp or
 - 1-800-670-7225
- Compliance, Audit, Legal, RF President or other Officer