

U.S. Department of Justice

Office of the Inspector General

Fraud Awareness and Prevention



Agenda

- OIG Background
- What is Fraud?
- Fraud Examples and Consequences
- Fraud Prevention and Mitigation

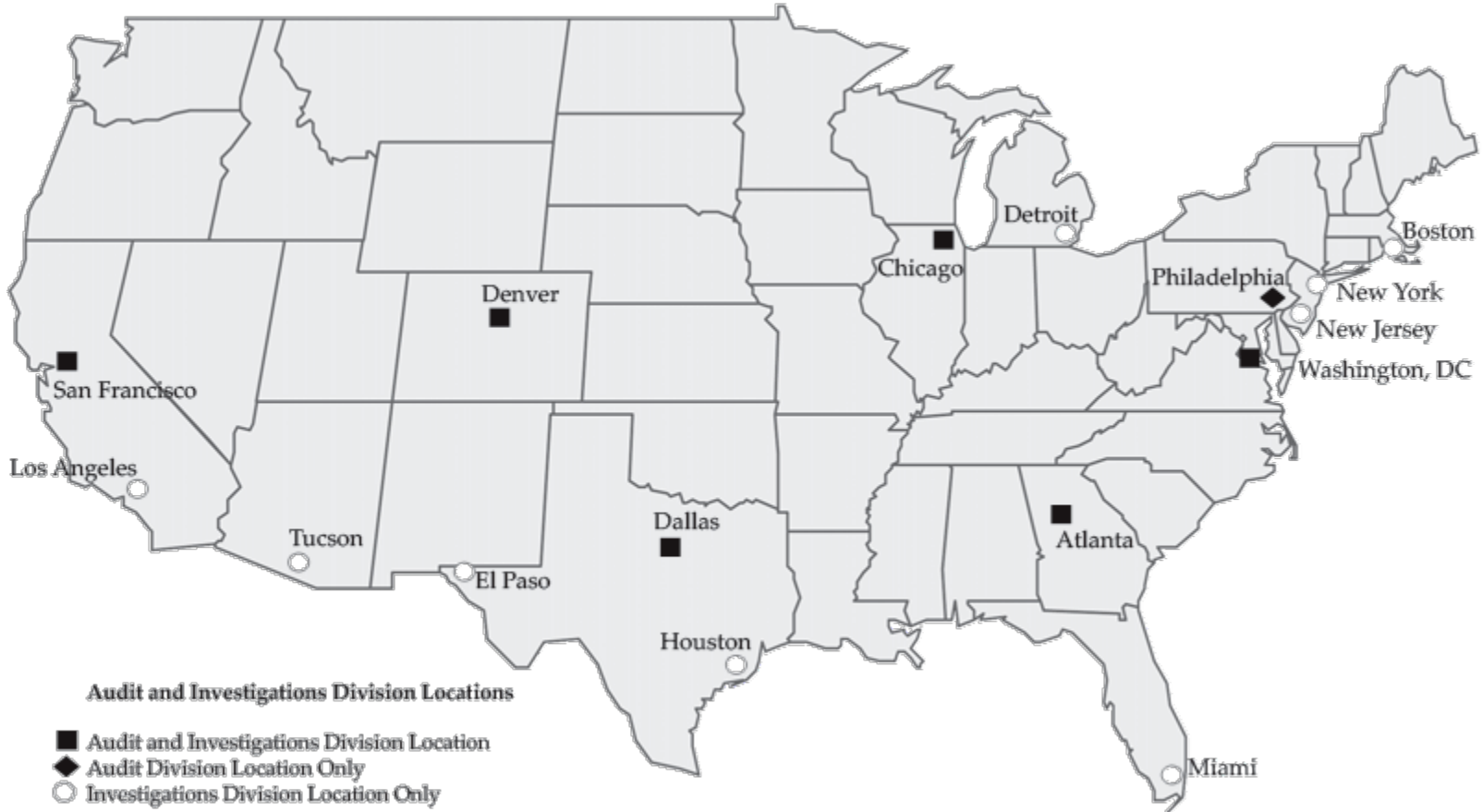
Background

- Conduct independent investigations, audits, inspections, and special reviews to...
- Detect and deter fraud, waste, abuse, and misconduct
- Ultimately promote the economy, efficiency, effectiveness, and integrity of DOJ

Background

- Investigations Division
- Investigative and audit personnel
- 150 Special Agents hold law enforcement authority
- Develop cases for criminal prosecution, civil action, or administrative action

OIG Locations



What is Fraud?

- **Lying, Cheating, and Stealing** in the performance of business operations for an **unlawful benefit**
- Fraud happens
- Prevent and detect early

What is Grant Fraud?

- Grant funds are awarded for specific purposes and grantees must use them accordingly and follow specified rules
- Fraud can occur anywhere in the grant process

Grant Process Overview

Pre-Award

Solicitation

Application/Proposal

Budget Formulation

Certifications/Assurances

Acceptance of Conditions

Post-Award

Grantee Performance

Financial Certifications

Claims for Reimbursement

Narrative Progress Reports

Grantor Monitoring/Audits

Integrity Based System

Grantor Policies – CFR Title 2

General Rule

Every dollar collected by a grantee must...

be **supported** by adequate evidence that the expense **occurred**, is **allowable**, **allocable**, and **reasonable**.

Fraud



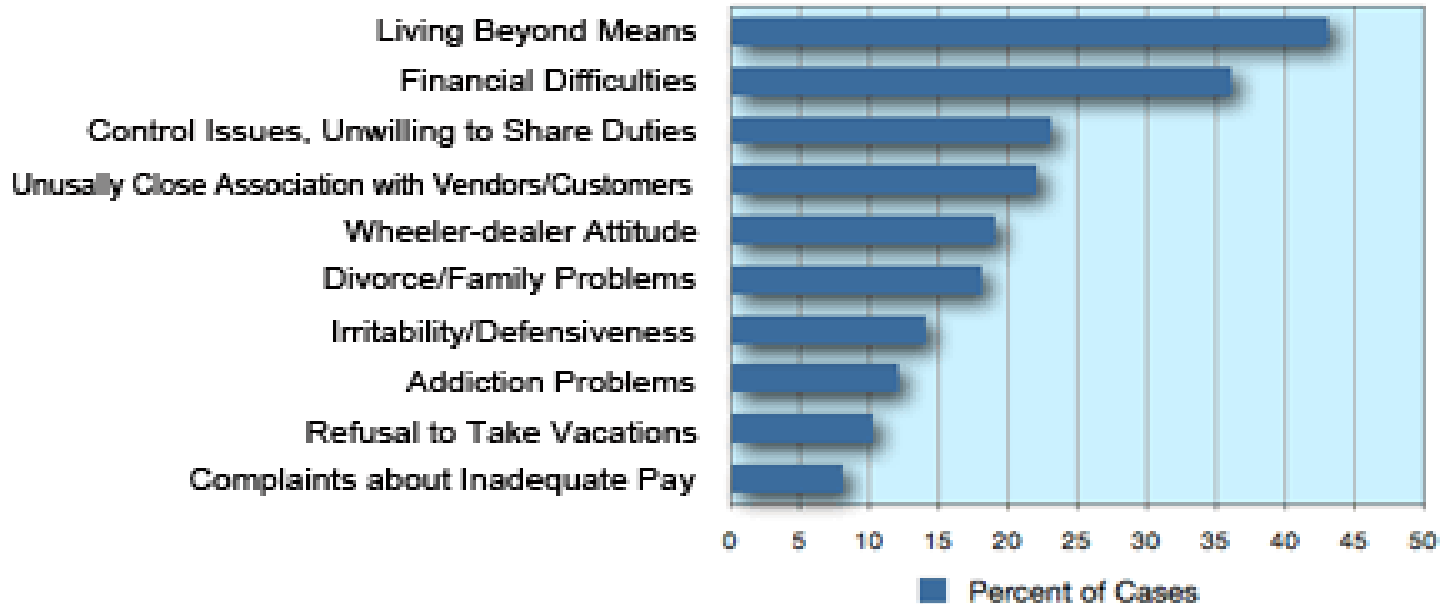
- Fraud will never be completely eradicated
- Fraud is increasingly more sophisticated

Fraud

- Perpetrators displayed warning signs and behavioral red flags
- Living beyond their means
 - 44% of cases
- Experiencing financial difficulty
 - 33% of cases

Fraud

Employee Warning Signs



Fraud Assumptions

- **Fraud does not happen in our organization**
- *It does and will happen*

- **We cannot mitigate the risk**
- *Awareness will mitigate some fraud risks but not all of them*

- **Our audit/monitoring visit did not find anything**
- *Most complex schemes will be, and are, difficult to uncover*

- **The OIG will detect all fraud schemes**
- *The OIG operates mainly in a reactive manner because we frequently work with historical data*

Fraud Theory

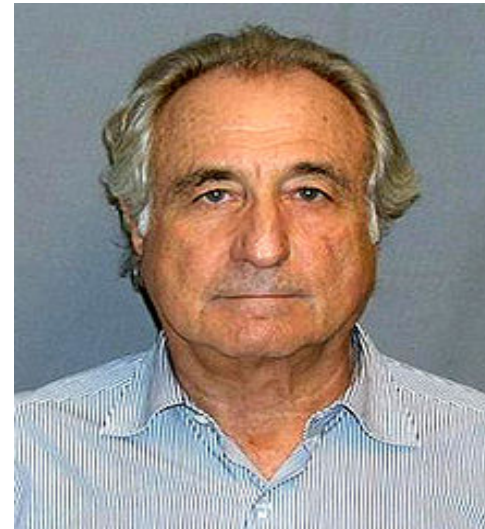


Fraud

Faces of Fraud



Charles Ponzi
1920s



Bernard Madoff
2000s

Fraud

Fraud Perpetrators Include:

- Board members
- Bookkeepers
- Company Officers
- Financial Staff
- Grant Recipients
- Managers
- Government Employees

Fraud Examples

Common Grant Fraud Charges Include:

- Conflicts of Interest
- False Statements and False Claims
- Theft and Embezzlement

Fraud Examples

Conflicts of Interest:

- Less than arms-length transactions
- Subgrants and vendor selections must be fair and transparent
- Consultants require a fair selection process, reasonable pay rates, and specified work products
- DC Charter School Example

Fraud Guidance

OMB Circular § 200.112 Conflicts of Interest

- The Federal **awarding agency must establish conflict of interest policies** for Federal awards. The non-Federal entity **must disclose in writing any potential conflict of interest** to the Federal awarding agency or pass-through entity in accordance with applicable Federal awarding agency policy.

Fraud Examples

Failing to Support Expenditures:

- Redirecting grant funds in a manner not specified in the grant agreement
- Failing to adequately account, track, and support transactions with grant funds
- Providing false or misleading information in applications or progress reports
- Big Brothers Big Sisters Example

Fraud Examples

Recent Theft Case Involved:

- Paying mortgage and other expenses with grant funds
- Skimming cash withdrawals
- Unauthorized checks

Fraud Consequences

- Criminal Prosecution
- Civil Actions
- Administrative Sanctions
 - Suspension
 - Debarment
- Tarnishing Organization's Reputation

Fraud Mitigation

Fraud Red Flags Include:

- Missing financial support documentation
- No segregation of duties
- Circumvention of internal controls
- “Sloppy bookkeeping” excuses
- Customer and Co-worker complaints
- High employee turnover
- Low organizational morale
- Excessive or illogical use of consultants

Fraud Mitigation

What Can Your Organization Do?

- Maintain strong internal controls
- Conduct outside audits
- Require accountability and control of credit/ATM cards and checkbooks
- Increase employee awareness about fraud risks and schemes

Fraud Mitigation

What Can Your Organization Do?

- Strict Adherence to:
 - OMB Circulars
 - OJP Financial Guide
 - Organizational Policies and Procedures

Fraud Prevention

The Keys are:

- Professional Skepticism
- Communication



Disclosing Fraud

- OMB Circular § 200.113
- The non-Federal entity or applicant for a Federal award **must disclose, in a timely manner, in writing** to the Federal awarding agency or pass-through entity **all violations of Federal criminal law involving fraud, bribery, or gratuity violations** potentially affecting the Federal award.

Reporting to OIG

- Confidential and Anonymous Reporting
- Employees of DOJ and its contractors, subcontractors, and grantees perform an **important service by reporting** what they reasonably believe to be evidence of wrongdoing, and they should **never be subject to or threatened with reprisal.**

Questions???



DOJ OIG

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