



GRANT FRAUD

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U.S. Department of Justice

Office of the Inspector General

HARRIETTE WALTERS

18

4,060 / 410,000

230 / 48,000,000

1,000,000 / 1,200,000 / 125

10,000,000

9 / 6.5 / 17.5

2016 ASSOCIATION OF CERTIFIED FRAUD EXAMINERS REPORT TO THE NATIONS ON OCCUPATIONAL FRAUD AND ABUSE

- The typical organization loses 5% of revenues each year to fraud. The median loss caused by occupational frauds, including embezzlement schemes, was \$150,000. Over half of victim organizations never recover any of these losses.
- The median duration — the amount of time from when the fraud commenced until it was detected —was 18 months.
- Tips are consistently and by far the most common detection method. Employees accounted for nearly half of all tips that led to the discovery of fraud. Hotlines increase detection.



❖ What is Fraud?

❖ What is Grant Fraud?

❖ Who is the Victim?



ASSUMPTIONS

❖ Fraud is Not Good

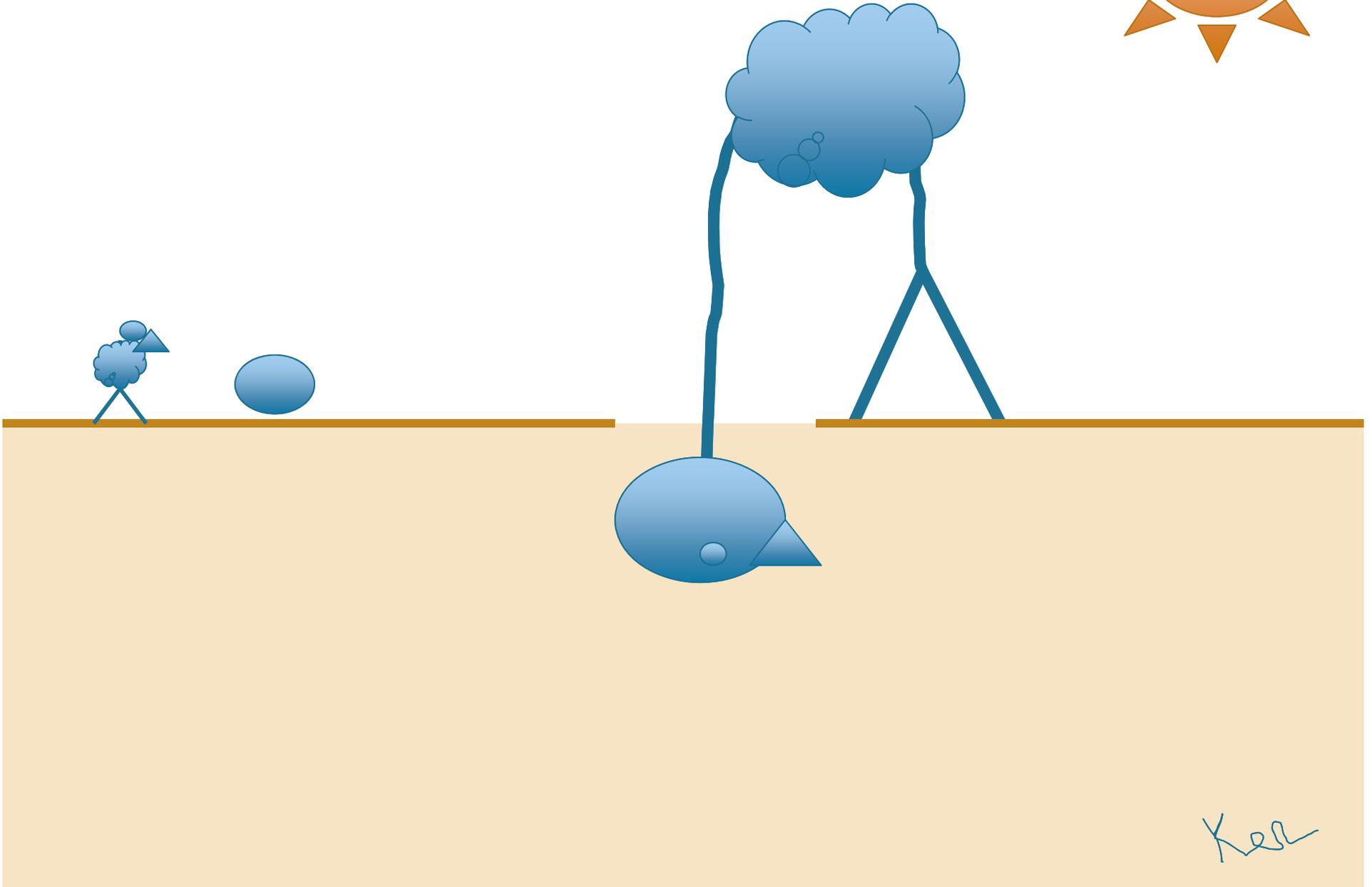
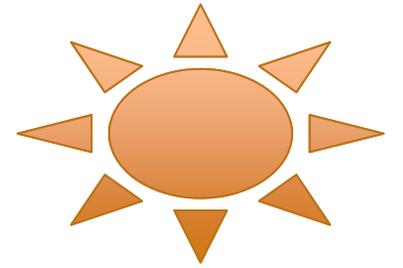
❖ We Must Prevent It or

Detect It Early

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FRAUD CONSEQUENCES

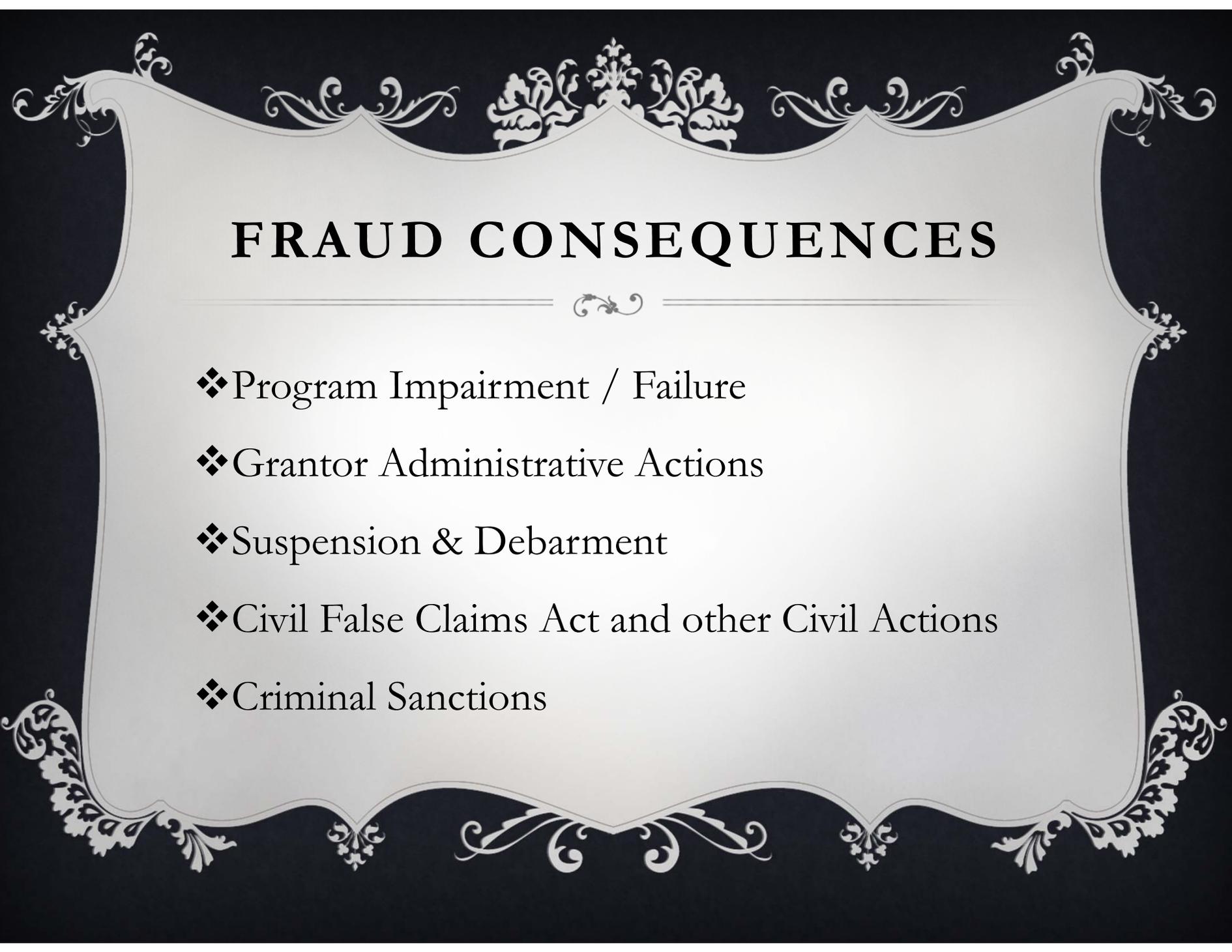
- ❖ Program Impairment / Failure
- ❖ Grantor Administrative Actions
- ❖ Suspension & Debarment
- ❖ Civil False Claims Act and other Civil Actions
- ❖ Criminal Sanctions



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It is all About the Bass, No Treble!

- Lithium Power Technologies (LPT) applied for 26 research grants from multiple federal agencies
- A whistleblower identified that LPT made numerous material false statements in their funding applications about their facilities, personnel and prior experience
- The Court found that LPT fraudulently induced the government to award \$5.8 in grants of which \$1.66 was paid out as of the time of the trial. Ordered treble damages of \$4,972,365 plus civil penalties

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WHAT CAN GO WRONG?

❖ Conflicts of Interest and Procurement

Process issues

❖ Material Misstatements

- Research Misconduct

❖ Embezzlement and Other Theft Schemes

1,300% Cost Increase

- D.C. officials alleged in a lawsuit Tuesday that three former managers at Options Public Charter School diverted at least \$3 million to enrich themselves, engaging in a “pattern of self-dealing” that was part of an elaborate contracting scam.
- The civil case alleges that the managers created two for-profit companies to provide services to the school at high prices.
- One example: a contract for bus services increased from \$70,000 to \$981,250– an increase of 1,300%.

School Supply Bribery Scheme

Twelve Detroit school principals approved false supply invoices in exchange for bribes and kickbacks over a 13 year period. In total, the vendor collected approximately \$2.7 million dollars in sales and paid out approximately \$908,518 to the principals in the form of cash, gift cards and checks.

CONSULTING CONTRACT

In exchange for \$10,000 a month, consultant agrees to attempt to do the following:

- Increase awareness of program goals**
- Collaborate with community stakeholders to leverage resources across barriers**
- Provide feedback and advice when requested on ways to improve operations**
- Collect consulting payments in a timely manner**

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\$1,000,000 Forgery

- Fairfax County Virginia Public Schools applied for an education grant in 2000 to help at-risk students prepare for college and careers.
- The application requested proof that the applicant had secured matching funds from private companies.
- According to the government, the school employee writing the grant application lied about receiving private-sector funding and forged signatures to make the donation look credible.
- In 2012, the county paid \$1,000,000 to settle False Claims Act allegations.

Source: Washington Post August 14, 2012

Maine Department of Education to Pay United States \$1.5 Million to Settle False Claims Involving Migrant Education Program

Under the Migrant Education Program, the U.S. Department of Education provides funds to states and territories to assist state education agencies in providing appropriate educational services that address the special needs of migrant children. The regulations governing the Migrant Education Program enumerate specific criteria for state education agencies to use in identifying migratory children. The states and territories are responsible for providing to the U.S. Department of Education an accurate count of eligible migratory children residing within the State or territory.

The United States alleges the MDE, Portland Public Schools, Maine Administrative School District #14 and the Maine Family Resource Center Inc., a non-profit corporation responsible for identifying and servicing migrant children residing in much of the state of Maine, falsely represented the number of eligible migratory children residing within the state for fiscal years 2002, 2003 and 2004. Based on the false child counts reported by the MDE to the U.S. Department of Education, the defendants received federal funds to which they were not entitled.

Source: May 21, 2009, U.S. Department of Justice Press Release

University of Iowa Doctor Sentenced to Prison

HHS awarded Dr. Dong Pyou Han of Iowa State University millions of dollars to conduct research into an AIDS vaccine.

In December 2012, independent tests found that his results could not be replicated and that the actual material tested had been compromised in Han's lab, but it took a year for that fact to be confirmed.

An investigation subsequently revealed that Han knowingly made false statements about his results and that these statements resulted in additional HHS grant awards.

On July 1, 2015, Han was sentenced to serve 4.5 years in prison and to pay \$7.2 million in restitution.

BIG BROTHERS BIG SISTERS OF AMERICA TO PAY \$1.6 MILLION TO RESOLVE ALLEGATIONS OF FALSE CLAIMS FOR FEDERAL GRANTS

Since 2004, Big Brothers has received millions of dollars in grants from the Justice Department to support initiatives on behalf of children at risk. As a condition of those grants, Big Brothers was required to maintain sound accounting and financial management systems in accordance with federal regulations and guidelines designed to ensure that grant funds would be properly accounted for and used only for appropriate purposes.

The United States alleges that Big Brothers violated these regulations and guidelines with respect to three grants awarded by the Justice Department from 2009 to 2011, by commingling the grant funds with general operating funds, failing to segregate expenditures to ensure that the funds for each grant were used as intended, and failing to maintain internal financial controls to safeguard the proper use of grant funds.

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From 1995 to 2000, employees of a McDonald's vendor stole winning monopoly game pieces and "won" virtually all the top prizes in the Monopoly game—a total of \$24 million. 21 people were indicted.

Source: Wikipedia

School Official Steals \$2 M.

The head of four New Mexico charter schools engaged in a 15-year scheme to steal over \$2 M. through the use of two sham vendors. His salary was \$240,000 and he received an \$80,000 severance package.

Source: KRQE News, Albuquerque, NM October 25, 2017

School Official Steals \$4 M.

The former Director of Finance and Comptroller for the Beaumont Independent School District was sentenced to 68 months in prison for stealing over \$4 M. The scheme involved 18 unauthorized wire transfers from a school account. A co-conspirator was sentenced to 46 months.

Former Director at USC Sentenced to Prison for Grant Fraud

Gail Shurling served as the Director of the Center for Manufacturing and Technology (CMAT) at the University of South Carolina. In her role with CMAT, Shurling submitted fraudulent documentation to obtain federal grant money.

As part of the scheme, Shurling approved contracts and payments to shell corporations that were controlled by friends, family members, and herself for work that was not completed. In total, Shurling submitted approximately \$336,000 worth of fraudulent documentation to the University, the Government, and to the entity responsible for administering grant funds.

She was sentenced her to 27 months, 3 years supervised release and over \$335,000 in restitution.

Risk Mitigation for Grantees

1. Examine your programs to identify fraud vulnerabilities.
2. 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.
3. Maintain a well designed and tested system of internal controls.
4. Ensure all financial or other certifications and progress reports are adequately supported with appropriate documentation and evidence.

Risk Mitigation for Grantees

5. 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.
6. 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.



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