- **Discuss fraud and the fraudster**
- **Review recently identified cases of fraud related to NHTSA grant funds**
- **Discuss strategies for prevention and identification of fraud**
- **Provide State examples on fraud prevention and detection best practices**
- **Discuss what to do if you suspect fraud**

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Speakers

Tom Gianni

Maggi Gunnels

Ann Burton

Alex Cabral

Susan DeCourcy

Bill Whitfield

Amy Pertgen

Lori Genzen

Terry Pence

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Grants and Fraud
Key Points

- Grant administration is in an era of transparency and accountability

- Emphasis on reducing waste, fraud and abuse

- All individuals and agencies involved with grant funds have an obligation to be good stewards of Federal funds

- Individuals associated with using grant funds for other than the intended purpose may be subjected to criminal prosecution, civil penalties, or suspension and debarment

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FRAUD

- **FRAUD**

  An illegal act that involves obtaining something of value through willful misrepresentation

- **GRANTS FRAUD**

  Using Federal dollars for personal gain or in other ways than intended use

  - **Conflict of interest** - decision making influenced by personal interest
  - **Making materially false statements** - submitting documents that are falsified, altered or fictitious
  - **Theft** - taking something that is not yours. Most common category of grants fraud.

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The Fraudster - FRAUD TRIANGLE

The triangle labels read: motivation, opportunity, rationalization

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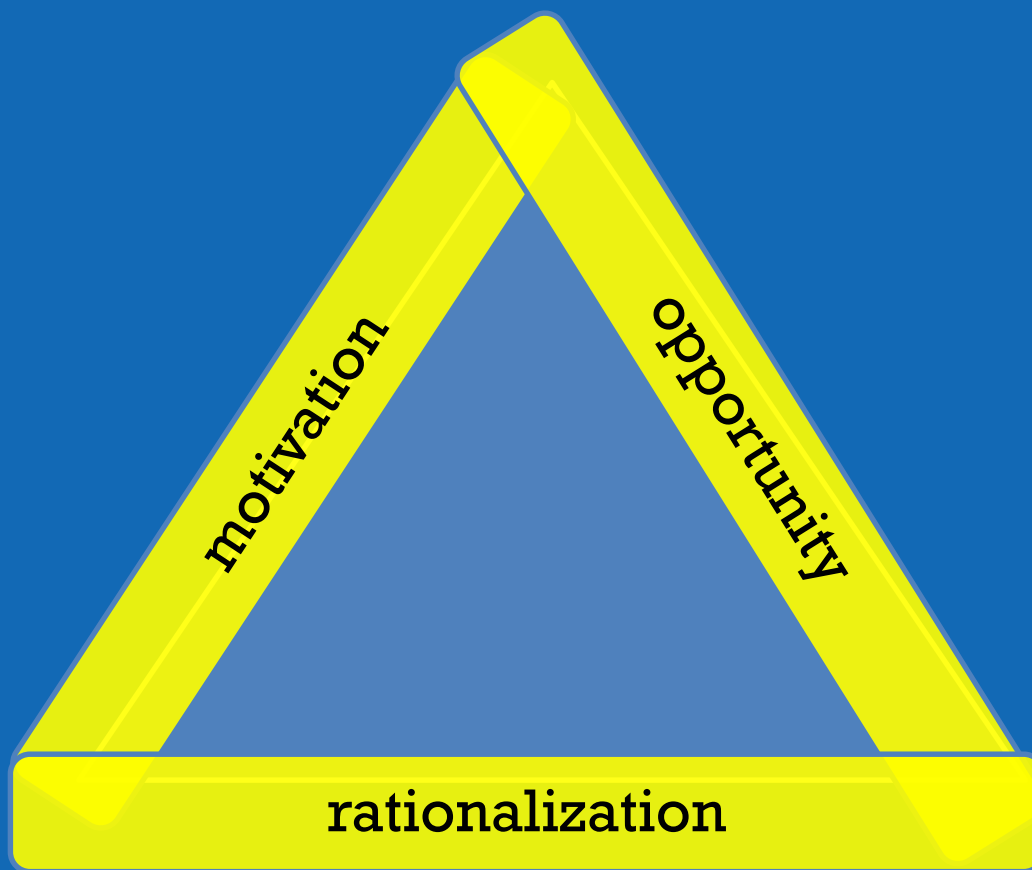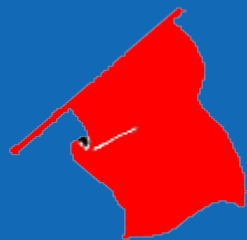
Look for the Red Flags

Behavioral

- Unusual work schedules (week-ends, long hours, never takes vacation)
- Inconsistent illogical explanations of discrepancies
- Lack of response to phone calls or e-mails
- Live beyond their means

Process

- Complaints from program beneficiaries
- Consistently late or incomplete reports
- Lack of open communication between recipient and subrecipient

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Look for the Red Flags
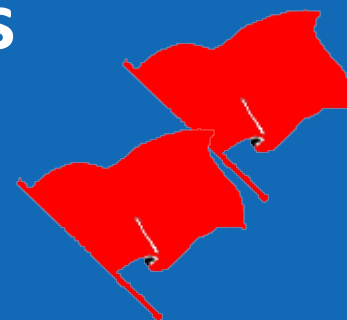
Transactional

- Unusual endorsements on checks and other documents
- Rate of spending does not correlate with grant activity
- Provides copies rather than original documentation
- Missing or incomplete documentation
- Missing supplies or inventory
- Numbers that don't add up or add up different in different places
- Timesheets that appear altered or include work hours when office was closed
- Lack of reporting program income

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Key Elements of Fraud Prevention

1. Internal Controls

2. Risk assessments

3. Monitoring

4. Education

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Fraud Prevention

Internal Controls

Five Components of internal Controls

- Control environment
- ❖ Risk assessment
- Control activities
- Information and communication
- ❖ Monitoring

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Fraud Prevention

Risk Assessments

- Provides a structured approach and promotes proactive measures

- Identifies vulnerabilities

- Look at organization, recipient entity, and program type

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Fraud Prevention

Grant Risk Assessments

2 CFR 200.331(b) - requires an evaluation of each subrecipient noncompliance with Federal statutes, regulations and terms and conditions of the subaward.

Suggested factors to consider:

- Prior experience with similar awards
- Results of previous audits
- New personnel or substantially changed systems
- Results of previous monitoring

FRAUD Prevention and Detection

Monitoring

- On-site reviews
- Desk
  - ✓ Financial documents including reconciliation
  - ✓ Progress reports
  - ✓ Audits -Single, OIG, GAO, limited scope

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Fraud Prevention

Education

- The more people are aware of the issues and what to look for, the more they can help prevent and detect suspected fraud

- Many opportunities to educate recipients and subrecipients on fraud prevention and detection and actual cases of fraud

  Examples: pre and post grant award meetings, law enforcement or traffic safety conferences

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RECENT GRANT FRAUD ACTIVITIES

FRAUD Example #1

- Awareness - detected by an administrative assistant

- Who investigated - State Investigative Agency (notified NHTSA OIG)

- Case details
  - Fraudulent activities - theft of funds
  - Involvement - two law enforcement officers
  - Duration - three years
  - Outcome - ten years probation, restitution of funds, debarment

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FRAUD Example #2

- Awareness of Suspected fraud - SHSO notified NHTSA

- Who investigated - OIG and Highway Patrol Crime Division

- Case details
  - Fraudulent activities - false claims for sobriety checkpoints
  - Involvement - Police Department Lieutenant
  - Duration - three fiscal years
  - Outcome - suspended, probation, restitution, non-employment

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FRAUD PREVENTION

STATE EXAMPLES

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FRAUD PREVENTION
Missouri Department of Transportation

Service offered by MoDOT

- Internal Audits and Investigations Unit
    - Beginning in 2003 providing additional oversight

Prevention Strategies

- Continued education at all levels of sub-recipient contact
    - Project solicitation and award meetings
    - Conferences and workshops
    - Utilize NHTSA strategies to prevent fraud and misuse of Federal funds

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FRAUD PREVENTION
Missouri Department of Transportation

Program Outcomes

- Enhanced communication between awarding agency and subrecipients

Assessment

- Increased open lines of communication with subrecipients
- Receive more calls/communication of concern

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FRAUD PREVENTION
New York State Governor's Traffic Safety Committee

- $32 million awarded

- 560 projects

- 7 program staff

- 5 fiscal staff

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FRAUD PREVENTION

New York State Governor's Traffic Safety Committee

Internal Controls

- Grantee monitoring procedure
- Separation of duties in grantee reimbursements
- Audit of source documents
- Ticket pulls

Education

- Fall conference presentations on fraud prevention
- Training grantees

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FRAUD PREVENTION
New York State Governor's Traffic Safety Committee

Risk Assessment

Established procedure based on a number of factors including:

- Past performance

- Awarded amount

- New project director

- Single audit results

- Additional stringent state requirements for not-for-profits

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FRAUD PREVENTION
New York State Governor's Traffic Safety Committee

Program Outcomes

- Unallowable or incorrect reimbursements are discovered before payment is made

- Grantees are more aware of what is necessary for a correct reimbursement

- Information from relevant outside sources can be used in decision making

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FRAUD PREVENTION
Ohio Traffic Safety Office

Subrecipient Monitoring

- Pre-monitoring visit

- Monitoring visit

- Post-monitoring visit

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FRAUD PREVENTION
Ohio Traffic Safety Office

Pre-monitoring Visit

- Ohio Traffic Safety Office (OTSO) provides list of grants to be monitored
- Office of Criminal Justice Services (OCJS) begins scheduling visits after enough claim activity has been submitted/approved by OTSO
- Letter is sent to confirm appointment
    - Includes a list of items that need to be available for review
- OCJS Monitors review grant activity prior to visit

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FRAUD PREVENTION
Ohio Traffic Safety Office

Monitoring Visit

- On-site monitoring checklist

- On-site monitoring test forms

- On-site monitoring review form

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FRAUD PREVENTION
Ohio Traffic Safety Office

Post-monitoring Visit

- Letter is sent with observations and recommendations
    - Letter is reviewed by OCJS and OTSO.
- OTSO reviews observations and recommendations to determine if any corrections are needed
- If corrections are needed, OTSO sends a correction letter with directions on how to do refund

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FRAUD PREVENTION
Ohio Traffic Safety Office

Frequent Errors

- Incorrect rate of pay

- Hours not documented correctly

- Incorrect fringe rate (workers compensation)

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FRAUD PREVENTION
Texas Department of Transportation

OIG Investigation: Selective Traffic Enforcement Grant Funds

- Over $500,000 in STEP grant funds misused in 4 police departments
- 24 officers removed from positions or resigned under investigation
- 25 police officers indicted
- 1 convicted or pled guilty

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FRAUD PREVENTION
Texas Department of Transportation

Schemes Identified

- Falsification of log sheets

- Falsification of tickets

- Misuse of administrative time

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FRAUD PREVENTION
Texas Department of Transportation

Fraud Risk Factors and Best practices

- Limited communication regarding program management

- Lack of training to supervisors and officers

- Building supervision into grant procedures

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FRAUD PREVENTION
Texas Department of Transportation

TxDOT Traffic Safety Policy Manual

Chapter 6, Monitoring and Evaluation

• Section 4, Fraud Prevention (updated April 2016)

http://onlinemanuals.txdot.gov/txdotmanuals/tfc/district_compliance_monitoring.htm

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FRAUD PREVENTION
Texas Department of Transportation

Fraud Prevention

- Identification of high risk grants and activities
- Recognition of risk factors for personnel services grants
- Incorporation of prevention strategies into policies and monitoring practices
- Preventive oversight for law enforcement agencies
- Traffic operations division review and actions
- Traffic operations division compliance monitoring
- On-site monitoring documentation

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When **FRAUD** is Suspected

- Follow State reporting procedure

- Contact NHTSA Regional Office

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Summary

- Be on the look-out. Sometimes good people do bad things (situational fraudsters)

- Look for the red flags

- Utilize the four key fraud prevention strategies
  Internal Controls, Risk Assessments, Monitoring, Education

- Report suspected fraud

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Questions

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THANK YOU

PURPOSE

- Discuss forms of sub-grantee fraud.

- Provide an overview of an OIG investigation into fraud among law enforcement agencies receiving highway safety funds.

- Offer strategies to prevent fraud among sub-grantees receiving highway safety funds.

OBJECTIVES

- **Identify** emerging trends and share information with GHSA and the States.

- **Understand** the importance and magnitude of financial management oversight of federal grant dollars.

- **Review** strategies for prevention and identification of fraud.

OVERVIEW

- The OIG Investigation

- Other Forms of Fraud

- Fraud Risk Factors/Prevention Strategies

- Questions

PRESENTED BY:

- Introduction – Barbara Sauers

- OIG Investigation – Gary Taylor

- Other forms of Fraud – Leslie Nelson-Taullie

- Fraud Risk Factors/Prevention Strategies – Tom Louizou

OIG INVESTIGATION
HOW WAS THE PROBLEM DISCOVERED?

- It was an **accident!**

- Investigation involved: Local Police Department/HSO/FBI/OIG/NHTSA

- Focus on Overtime STEP grants (OP, DWI, Speeding & Other)

- Significant Local/State media coverage

- OIG Investigation Broadened Nationally

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INITIAL INVESTIGATIONS RESULTS (EXAMPLE OF STEP INVESTIGATIONS)

- $506,000 identified as misused in 4 police departments.
  - State has or will pay back to NHTSA

- 24 Officers removed or resigned; 1 retired.

- 25 Officers indicted. Adjudication in process.

- Investigations are continuing. The dollar amount and number of Officers involved will likely increase.

SCHEMES ASSOCIATED WITH STEP GRANT FRAUD

1. Falsification of Log Sheets

2. Falsification of Tickets

3. Misuse of "Administrative Time"

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FALSIFICATION OF LOG SHEETS

- Most common fraud scheme.

- Officers misreport times worked, time tickets were written, number of tickets written to get paid for time not worked.

- Sometimes with tacit approval of supervisor.

- Discovered when officers' log sheets compared to actual time worked based on dispatch logs, ticket records, vehicle logs.

FALSIFICATION OF TICKETS

- Times omitted from tickets until log sheet completed (Citation 1)

- False time entered on ticket to appear as if written during overtime shift

- Discovered when an officer's ticket book was found with completed ticket info but no times noted

FALSIFICATION OF TICKETS CONT.

■ Officer uses false name or name of violator pulled over for unrelated matter; was most common

    (Citation 2)

■ Court system later revealed no record of tickets written on officer's shift

    (Log Sheets 1-2)

Log Sheet Page 1

CITATION WITH DATE MISMATCH

Citation 2

Investigator's notes indicate no record of this citation found.

This citation, attached on the following page, is not dated for this date, indicating it was not written during this shift.

Log Sheet Page 2
(OIG indicates date mismatch on log sheet)

MISUSE OF "ADMINISTRATIVE TIME"

- Officers routinely adding 1-2 hours at end of shift to complete log sheets and submit tickets to the court when little or no paperwork exists.

OTHER FORMS OF FRAUD: SUB-GRANTEE, SUBCONTRACTING TO A THIRD PARTY

- SHSO contracts with a sub-grantee to provide a service

    Example — Coordinate CPS training, media support, etc.

- Sub-grantee contracts with a 3rd party to perform part of the work

    Example — CPS instructors, graphic design, etc.

- Grant Agreement with Sub-grantee:

    -Sub-grantee staff time is to be billed @ $125 per hour

    -Sub-contactor staff time is to be billed @ $75 per hour

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SUB-GRANTEE, SUBCONTRACTING TO A THIRD PARTY

- Work is performed and 3rd Party bills sub-grantees at the agreed rate ($75).

- Sub-grantee submits voucher and requests payment at the $125 rate.

- Payment is made and the SHSO reimburses the sub-grantee at the inflated rate.

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OTHER FORMS OF FRAUD: POLICE DEPARTMENT – IMPROPER REIMBURSEMENTS

- <u>Audit</u>: Resulted from an anonymous officer's complaint on improper reimbursements.

- <u>Complaint</u>: Chief of Police knowingly and intentionally made false entries in the years 2008 and 2009.

- <u>Result</u>: Audit found 281 discrepancies.

- <u>Finding</u>:$**38,710** in inappropriate claims were submitted for reimbursement.
    (an additional $6,954 were uncovered by another grantor review)

- <u>Resolution</u>: Chief admitted to the fraud and provided restitution of all the funds in question.

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HOW DO INVESTIGATIONS HAPPEN?

- Formal Complaints

- Anonymous tips

- Investigating Agency
  - OIG
  - FBI
  - State Auditor or Internal Auditor
  - District Attorney

- Considerations
  - Magnitude and Scope
  - Duration, number of instances

FRAUD RISK FACTORS: MANAGEMENT/INTERNAL CONTROLS

- Three most common contributing factors:
  - Lack of communication regarding program management
  - Lack of training to supervisors and officers
  - Lack of supervision in grant procedures
- Result:
  - Non-compliance with accepted standards for financial management systems (49 CFR 18.20)
  - Non-compliance with A-123 requirement that programs be protected from waste, fraud, and mismanagement

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FRAUD RISK FACTORS:
INTERNAL CONTROL WEAKNESSES
LAW ENFORCEMENT GRANTS

- Lack of communication regarding program management
  - Failure to communicate specific, clear benchmarks, goals and deliverables for enforcement, personal service and media contracts
- Lack of training to supervisors and officers
  - Failure to emphasize the unique conditions of specific grant programs in recruitment and in-service courses

- Lack of supervision in grant procedures
  - Failure to provide oversight during overtime patrols;
  - Absence of a time and attendance quality control check that can easily identify log sheet falsification
  - Use of paper tickets

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PREVENTION STRATEGIES - SHSO

- Provide pre-award guidance and/or workshops on the specific highway safety grant program being funded and fraud prevention practices.

- Require sub-grantees to submit policy and procedure/internal controls to certify compliance.

- Develop an action plan to follow when possible fraud is detected.

- Use department/State Auditors to randomly audit sub-grantees and follow up allegations of fraud.

- Document and disseminate summaries of identified fraud and its consequences to individual officers, project personnel and their department, as a deterrent.

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PREVENTION STRATEGIES - SHSO

- Appropriate project monitoring w/ documented feedback
- Use of E-Grants
  - Should Review original documents as opposed to copies or consolidated billing statements, whether at the sub-grantee level or 3rd party subcontract level
- Oversampling of vouchers (electronic and paper)
- Establish clear performance benchmarks and expectations

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PREVENTIVE OVERSIGHT – LAW ENFORCEMENT AGENCY

- Build supervision into project

- Develop and implement an enforcement or project action plan based on data

- GPS units on patrol vehicles

- Use of log sheets (personal activity reports –PAR) to verify actual hours worked on shift

- Training - including refresher roll call reviews of expectations

- Review ticketing system – automated vs. hand written

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SUGGESTED QUESTIONS FOR SHSO AND PROJECT MANAGERS

1. Ask about management controls:

- Do supervisors sign off on completed work?
- Do officers check in and out of shifts with a supervisor or dispatch?
- Do supervisors conduct reviews and spot checks of officer records?
- Are schedules prepared in advance?
- Do managers have access to GPS records or other location records for patrol vehicles?

2. Ask about the ticketing system:

- Could an officer falsify elements like date and time of violation?
- Are records retained for review?

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QUESTIONS ON TRAINING

3. Ask about training requirements:

- Are officers informed about requirements and expectations?
- Are veterans asked to do refresher training?
- Do managers have adequate training on grant administration?
- Is any emphasis placed on detecting fraud or conducting periodic reviews?
- Are training records maintained?

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CONTACT INFORMATION

For more information, please contact your NHTSA Regional Office.

QUESTIONS?