Reducing Grant Fraud Risk: A Framework for Grant Training

Financial Fraud Enforcement Task Force

Recovery Act, Procurement, and Grant Fraud Working Group

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REDUCING GRANT FRAUD RISK

INTRODUCTION

The purpose of this document is to provide a framework for training grant administrators and recipients of federal grant funds on practices for reducing the risk for grant fraud. Grant administrators that promote awareness about grant rules and prudent practices may help prevent, deter, and detect fraud or other misuses of funds.¹ This document provides grant training content, additional sources of information for further guidance, and illustrative hypothetical scenarios that provide practical applications of the issues discussed herein. This information is designed to be used by government agencies and other grant administrators as a general framework for delivering core grant information that has broad applicability to multiple grant programs. Grant administrators may provide the information to trainees using different delivery platforms, including online and interactive platforms that will help ensure that grant recipients retain the information presented. Therefore, agencies should review the training content and determine the content that is most applicable to their grant recipients, as well as the format that is most effective based upon the nature of the grants awarded.²

Grant recipients have the primary responsibility to ensure federal grant awards are used properly. Federal grant awarding agencies help to ensure that grant recipients have the support and guidance needed to manage federal grants appropriately. The federal Inspector General community conducts independent and objective audits, investigations, and other oversight activities to help ensure taxpayer funds are used in an efficient and effective manner while reducing the risk of fraud, waste, and abuse.

The Grant Fraud Committee of the Financial Fraud Enforcement Task Force’s Recovery Act, Procurement, and Grant Fraud Working Group developed this document. The Committee consists of representatives from several Offices of Inspectors General,³ and this document represents the collective efforts of the Grant Fraud Committee to bolster training efforts in

¹ Throughout this document references to “grants” will include grants and cooperative agreements.

² The rules and regulations discussed in this document do not apply to every federal grant. There are several references throughout this training to agency-specific regulations and requirements that can be substituted for other agency requirements, such as Uniform Administrative requirement regulations and program-specific legislation. This guidance does not exempt grant recipients from grant terms and conditions. Grant recipients must follow specific grant conditions, regulations, or other rules applicable to their specific grant.

³ The Grant Fraud Committee is chaired by the U.S. Department of Justice (DOJ) Office of the Inspector General (OIG) and includes representatives from the Offices of Inspectors General of the Department of Education (ED), Environmental Protection Agency (EPA); Department of the Interior (DOI); Department of Health and Human Services (HHS); Department of Housing and Urban Development (HUD); Department of Labor (DOL); National Science Foundation (NSF); and the Commander, Navy Installations Command (CNIC).
combating grant fraud and to enable grant recipients to prevent and deter any misconduct related to federal grants.\(^4\)

**Inspectors General and Grant Fraud**

Federal Offices of Inspectors General (OIG) derive their primary authority from the Inspector General Act of 1978 and its subsequent amendments. This statute empowers OIGs to conduct audits of grant recipients and internal grant processes, as well as investigations related to fraud and other inappropriate uses of federal funds. A list of Inspectors General is available on the Council of the Inspectors General on Integrity and Efficiency website ([http://www.ignet.gov/igs/homepage1.html](http://www.ignet.gov/igs/homepage1.html)).

For OIG auditors and investigators the term, “grant fraud,” encompasses a wide range of improper activities often summarized in three general categories: conflicts of interest, materially false statements, and theft.

- **A conflict of interest** may occur when an entity engages in transactions involving undisclosed related parties. For example, a grant recipient hiring a relative as an employee or as a vendor to supply grant-funded products and services may constitute a conflict of interest. Also, a conflict may result where a grant recipient purchases goods or services from a business in which the grant recipient has an ownership interest. Conflicts may also occur in the grant award-making process or sub-award process at the federal, state, or local level.

- **Grant fraud** may also involve materially false statements to the government. Such misstatements may be misleading to the grant-awarding body, and may occur during the application process or during the implementation of the grant program. This type of fraud may include false certifications that grant recipients will use grant funds properly or abide by particular requirements. Grant recipients that fail to maintain adequate supporting documentation about the use of funds, misrepresent elements of costs, or attempt to charge unallowable costs to a federal grant have potentially made false statements or presented false claims to the government. These activities have different consequences depending on many factors, including the level of intent of the individuals involved.

\(^4\) The information in this document is intended to provide guidance for grant management. However, the guidance provided in this document does not impose requirements upon, or create any legal duties or obligations for grant awarding agencies or grant recipients. The information in this document is not intended to, and does not, create any right or benefit, substantive or procedural, enforceable at law or in equity by any party against the United States, its departments, agencies, or entities, its officers, employees, or agents, or any other person. A recipient of federal grant funds is solely responsible for ensuring the funds are used for the purposes specified in the grant proposal and award.
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- Theft is one of the more common grant fraud issues and it can take many forms. For example, creative bookkeepers may create fictitious transactions, and employees may misuse a credit card designated for grant-funded purchases.

Grant fraud may be punished by the prosecution of criminal actions, civil fraud remedies, and administrative actions including suspension, debarment, and cancellation of current or future grant awards. This training framework developed by the Grant Fraud Committee is designed as a tool to help prevent and deter grant fraud from occurring by emphasizing five key grant management subjects: (1) the grant award agreement and regulations, (2) grant fraud indicators, (3) internal controls, (4) prudent practices for fraud prevention and detection, and (5) grant management practices. Each training module is structured similarly with an introductory paragraph explaining the content of the module, a list of public Sources of Information related to the training content, the training material for presentation to the trainees, and interactive questions that can be used to test trainees' retention of the information and overall subject matter presented. Each section of Interactive Questions presents the questions and answers. 

Each Interactive Questions section also contains Grant Recipient Scenarios that describe different situations that grantees may encounter during the implementation of grant programs. These scenarios were established to provide real-world examples of common situations grant recipients may encounter. Users of this document may consider orienting the scenarios to more specifically apply to the target audience’s grantees, rules, and regulations. Grant recipients completing this training must refer to award documents and awarding agencies for specific rules that apply to individual grants. The scenarios established in module I continue throughout the training to provide specific situations that are relevant to each subsequent module.

5 The questions and answers have been removed from this public version of the grant training framework document to help ensure the integrity of trainee tests.

6 The names, characteristics, events, and individual grant recipients within the scenarios are fictional: any similarities to real persons or events are coincidental and unintended.
I. GRANT AWARD AGREEMENT AND GOVERNING REGULATIONS

This module will provide training participants an introduction to grant award documents and general requirements applicable to federal grants. This module emphasizes that the specific applicable requirements vary between federal agencies and grant programs.

Sources of Information

- Office of Management and Budget (OMB) guidance on government-wide regulations, including Uniform Administrative Requirements (http://www.whitehouse.gov/omb/grants_chart).
- Cost Principles for Commercial Organizations (FAR 31.2 and 48 C.F.R. § 31); Educational Institutions (2 C.F.R. § 220); Non-profit Organizations (2 C.F.R. § 230); and State, Local, and Tribal Governments (2 C.F.R. § 225).
- Agency-specific guidance, such as that issued by the Department of Health and Human Services (HHS) (http://www.hhs.gov/asfr/ogapa/grantinformation/appbusguidance.html) and the National Science Foundation (NSF). (http://www.nsf.gov/pubs/policydocs/pappguide/nsf11001/aagprint.pdf).
- Section 1001 of Title 18, United States Code.

Training Material

The grant process generally begins with a grant solicitation, which details the purpose of the program, grant recipient eligibility criteria, application deadlines, and other basic program information. Applicants submit grant applications and are selected for awards based on a variety of criteria, which could be a predetermined formula, crime statistics, or peer review scores. There are several other methodologies for selecting grant recipients. Applicants should ensure that information and data submitted in the application is accurate, complete, and verifiable through documentation in case of future inquiries. Applicants should maintain documentation, such as emails and memoranda, of any guidance that awarding agencies provide during the application process and the implementation of the grant program. Applicants that submit inaccurate or erroneous information risk audit findings of non-compliance or investigation, and such conduct may be criminally prosecuted for a false statement in violation of 18 U.S.C. Section 1001. Prosecutions may result in fines, penalties, and imprisonment. Violations of grant laws and regulations should be reported to the Inspector General of the awarding agency. Agency Inspectors General are listed on the Council of the Inspectors General on Integrity and Efficiency website (http://www.ignet.gov/igs/homepage1.html).
Once an applicant is awarded a grant, awarding agencies provide the recipient with a grant award agreement. Recipients must review this agreement carefully for grant terms and conditions, as well as other useful information.

**Award Agreement**

Grants and cooperative agreements are legally-binding agreements between the government and a grant recipient for a public purpose, such as researching a disease, assisting the homeless, or protecting a public transit system from a terrorist attack. Grant recipients are required to use their awarded funds as agreed to in the document and must follow financial and administrative requirements, including accurately tracking the specific use of federal funds and properly reporting the progress of the project to the granting agency.

Recipients that are selected for grant awards should carefully review their federal award package for important details, particularly those individuals that are responsible for program implementation, program management, reporting, financial requirements, and other grant-related duties. The award agreement is the first place grant recipients should typically look to find guidance and requirements they must abide by when managing grant programs and funds. Most award agreements will specify the grant program, points of contacts within the federal agency, as well as grant requirements and governing regulations. Recipients should pay particular attention to the specific regulations and requirements imposed on the particular grant because these requirements vary depending on the specific award, awarding agency, type of recipient, and other factors. If grant recipients have any questions about the specific requirements governing grants, they should consult with the federal grant administrator or point of contact listed in the award agreement. Grant recipients should request guidance to be provided in writing.

Most awarding agencies will require recipients to provide certifications as assurance that recipients will abide by regulations and that recipients will implement certain policies, procedures, and practices. Recipients must ensure that these certifications are true, because if they are not accurate, the grant recipients may risk significant audit findings, investigations, and determinations of non-compliance. If it is determined that grant recipients are not in compliance, they may be subject to criminal prosecution, civil penalties (including fees), suspension and debarment from receiving future grants and contracts, and freezing of grant funds.

**Reporting Requirements.** The reporting requirements of a grant are specified in most award agreements or within the regulations governing an award. Most grants require recipients to submit periodic financial and programmatic reports throughout the duration of the grant. These reports should be submitted in a timely manner, and the information contained within should be accurate, complete, and based on verifiable documentation. Failure to do so can result in denial of funds, as well as audits and investigations. Recipients should review award agreements and rules carefully to identify this information, because different grants may require varying frequency of
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reports. Many award agreements require certifications by recipients that the information contained in the reports is true. Recipients must ensure these certifications are accurate, or else risk legal and administrative consequences for submitting false statements.

Project Budget and Narratives. Grant recipient staff must become very familiar with the project budget, objectives, program performance measurements, timeline, project award period, and all other aspects of the award. For many grants, these documents serve as the basis for the formal agreement and government approval of project expenditures and activities between the recipient and the U.S. government. Auditors and reviewers of grants will review these materials and determine whether the activities specified on the project are being achieved, and whether such activities are within the scope of the project. Grant recipients should receive written authorization from federal awarding agencies before expending funds on activities not explicitly specified in the approved budget or narrative. Auditors and reviewers may question such activities if documentation cannot be presented that the activities (or costs associated therewith) were approved. The grants recipients should also review each activity and determine how each activity conforms or advances the objectives of the grant. As such, all staff working on the grant should gain an in-depth understanding of these objectives.

Federal Grant Regulations

Grant recipients must follow the applicable grant regulations, but these regulations may differ depending upon the type of grant recipient (for example, non-profit, for-profit, university, and state/local/tribal government), the specific federal agency awarding the grant, and the type of grant program. In addition, federal awarding agencies may apply specific additional guidance, or may be exempt from applying certain regulations from grant programs. The information below is intended to be used as a guide for award recipients to identify sources of possible regulations that may apply to a broad range of awards. This list is not intended to be exhaustive, and each regulation discussed below does not apply to every federal grant. Grant recipients must review award agreements carefully to identify the regulations that are applicable and contact their federal awarding agency with any questions.

Agency-Specific Grant Manuals. Several agencies issue agency-specific manuals for recipients’ grant management needs. For example, NSF issues an Award and Administration Guide that is applicable to NSF grants and cooperative agreements, unless noted otherwise in the award instrument. These agency-specific regulations often simplify grant management responsibilities for award recipients by centralizing and standardizing laws and regulations in one place. However, legal or regulatory

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requirements may supersede agency-specific guidance. Therefore, grant recipients and staff are encouraged to be familiar with all regulations governing a specific grant. If grant recipients have any questions regarding the governing regulations, they should consult their government program administrator or the designated point-of-contact.

**Uniform Administrative Requirements.** Several federal awarding agencies have promulgated regulations in accordance with the Grants Management Common Rule that is applicable to grant recipients. These agencies promulgated the Common Rule in their respective titles of the Code of Federal Regulations (CFR), along with any applicable changes. These government-wide rules, referred to as Uniform Administrative Requirements, make it easier for grant recipients to administer federal grants in compliance with the law. Often distinguished among (i) regulations designated for state, local, and tribal governments, and (ii) those designated for non-profit organizations, these regulations establish administrative requirements for grant recipients, such as pre-award and application requirements, standards for financial management systems, budget revision approvals, reporting requirements, and after-award requirements such as closeout. Agencies will often specify in award agreements which regulations grant recipients are expected to follow. Two examples of Uniform Administrative Requirements are described below:

- **State, local, and tribal governments** – The Department of Health and Human Services has codified its Uniform Administrative Requirements at 45 C.F.R. § 92. In addition, the Department of Labor codified its requirements at 29 C.F.R. § 97.

- **Non-Profits** – Several federal agencies have also codified Uniform Administrative Requirements for institutions of higher education, hospitals, and other non-profit organizations. For example, the Department of Education’s requirements can be found at 34 C.F.R. § 74.

**Cost Principles.** Cost Principles establish general requirements for recipients to determine allowable and allocable costs. These principles were designed to provide that the federal government bear its fair share of total costs in accordance with generally accepted accounting principles, except where restricted or prohibited by law.

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8 The Office of Management and Budget maintains an online list of each agency’s codification of government-wide grant requirements at [http://www.whitehouse.gov/omb/grants_chart](http://www.whitehouse.gov/omb/grants_chart).

9 Each Cost Principle defines when a cost is allocable to a particular grant. The definition in 2 C.F.R. § 230 states: “A cost is allocable to a Federal award if it is treated consistently with other costs incurred for the same purpose in like circumstances and if it: (1) is incurred specifically for the award, (2) benefits both the award and other work and can be distributed in reasonable proportion to the benefits received, or (3) is necessary to the overall operation of the organization, although a direct relationship to any particular cost objective cannot be shown.”
These Cost Principles have been promulgated within the Code of Federal Regulations. The Cost Principles are listed below.

- Commercial Organizations (FAR 31.2 and 48 C.F.R. § 31)
- Educational Institutions (2 C.F.R. § 220)
- Non-profit Organizations (2 C.F.R. § 230)
- State, Local, and Tribal Governments (2 C.F.R. § 225)

**Single Audit Act Requirement (OMB Circular A-133).** OMB Circular A-133 was issued pursuant to the Single Audit Act of 1984 and sets forth standards for obtaining consistency and uniformity among federal agencies for the audit of states, local governments, and non-profit organizations expending federal awards. According to OMB Circular A-133, non-federal entities that expend $500,000 or more in a year in federal awards are required to have a single audit conducted. Single audits are performed by public accountants or a federal, state or local government audit organization in accordance with generally accepted government auditing standards. Single audits are intended to (i) determine whether the financial statements and schedule of expenditures of federal awards are presented fairly; (ii) test internal controls over major programs; (iii) determine whether the grant recipient is in compliance with requirements that may have a direct and material effect on each of its major programs; and (iv) follow up on prior audit findings.

**Research Misconduct Regulations.** The Office of Science and Technology Policy issued a *Federal Policy on Research Misconduct* on December 6, 2000.\(^\text{10}\) As a result, several agencies that conduct or support research developed and implemented regulations governing research misconduct. Several of those organizations, such as the National Science Foundation\(^\text{11}\) and the Department of Health and Human Services,\(^\text{12}\) promulgated those policies in the agencies’ respective title in the Code of Federal Regulations.\(^\text{13}\)

According to the *Federal Policy on Research Misconduct*, research misconduct is defined as fabrication, falsification, or plagiarism. Grant applicants and recipients should be aware that fabrication, falsification, and plagiarism in applying for, performing, or meeting reporting requirements for research grants may serve as the basis for a civil or criminal action.

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\(^{11}\) 45 C.F.R. § 689 (2005).

\(^{12}\) 42 C.F.R. §93.103 (2005).

\(^{13}\) Grant recipients should ask awarding agency officials and check award documents to determine how each agency implemented these policies and whether the award is under the purview of these regulations.
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Criminal fraud prosecution. Further, violations may lead to administrative actions, including suspension and debarment.

Nonprocurement Suspension and Debarment. To protect the government’s interests, any agency can suspend or debar (exclude) businesses or individuals from receiving contracts or assistance for various reasons, such as a conviction of or indictment for a criminal or civil offense, or a serious failure to perform to the terms of an agreement. Executive Order 12549 states that executive departments and agencies shall participate in a system for debarment and suspension from programs and activities involving federal financial and nonfinancial assistance and benefits. Debarment or suspension of a participant in a program by one agency has a government-wide effect. Debarred and suspended entities are identified on the Excluded Parties List System (EPLS) maintained by the General Services Administration (GSA). Entities identified in the EPLS are generally ineligible from receiving certain federal contracts, subcontracts, federal assistance, and benefits.

OMB promulgated regulations that implemented Executive Order 12549 at 2 C.F.R. 180. Many awarding agencies have issued regulations governing the implementation of the Executive Order 12549. The Drug-Free Workplace Act of 1988 (Act) requires some federal contractors and all federal grant recipients to agree that they will provide drug-free workplaces as a precondition of receiving a contract or grant from a federal agency. Although all covered contractors and grant recipients must maintain a drug-free workplace, the specific components necessary to meet the requirements of the Act vary based on whether the contractor or grant recipient is an individual or an organization. The requirements for organizations are more extensive because organizations must take comprehensive, programmatic steps to achieve a workplace

14 A suspension is a temporary exclusion of a party pending the completion of an investigation, while a debarment is a fixed-term exclusion. Generally, the period of debarment does not exceed 3 years, though some are indefinite. U.S. Government Accountability Office, Excluded Parties List System: Suspended and Debarred Businesses and Individuals Improperly Receive Federal Funds, GAO-09-174 (February 2009), page 1.


17 The Office of Management and Budget maintains a list of each agency’s codification of government-wide grant requirements online at http://www.whitehouse.gov/omb/grants_chart.

free of drugs. OMB promulgated the requirement (2 C.F.R. 180), as did most agencies. According to the Department of Labor Drug-Free Workplace Advisor, organizations covered by the Drug-Free Workplace Act of 1988 are required to provide a drug-free workplace by taking the following steps:

i. Publish and give a policy statement to all covered employees informing them that the unlawful manufacture, distribution, dispensation, possession or use of a controlled substance is prohibited in the covered workplace and specifying the actions that will be taken against employees who violate the policy.

ii. Establish a drug-free awareness program to make employees aware of (a) the dangers of drug abuse in the workplace; (b) the policy of maintaining a drug-free workplace; (c) any available drug counseling, rehabilitation, and employee assistance programs; and (d) the penalties that may be imposed upon employees for drug abuse violations.

iii. Notify employees that as a condition of employment on a federal contract or grant, the employee must (a) abide by the terms of the policy statement; and (b) notify the employer, within five calendar days, if he or she is convicted of a criminal drug violation in the workplace.

iv. Notify the contracting or granting agency within 10 days after receiving notice that a covered employee has been convicted of a criminal drug violation in the workplace.

v. Impose a penalty on—or require satisfactory participation in a drug abuse assistance or rehabilitation program by—any employee who is convicted of a reportable workplace drug conviction.

vi. Make an ongoing, good faith effort to maintain a drug-free workplace by meeting the requirements of the Act.

**Byrd Anti-Lobbying Requirement.** Section 1913 of the Title 18, U.S. Code, is a criminal statute that prohibits the use of congressionally-appropriated funds for lobbying activities. In addition, Section 1352 of Title 31, U.S. Code, requires recipients to submit a written certification that the recipient will not use federal funds for lobbying. Recipients that use grants for lobbying activities may be criminally prosecuted.
Other Sources of Information

There are a number of other sources of information which provide additional guidance for recipients and references to applicable regulations. Not all of these sources will be applicable for every grant, and the specific source that is applicable will depend upon the nature of the grant program. Recipients should refer to award agreements and if there are any questions, grant recipients and staff should consult with the points of contact at the awarding agency.

- **Grant Solicitation.** The initial announcement or “solicitation” for the award may contain important grant requirements and eligibility criteria.

- **Grant Program Website.** Websites maintained by awarding agencies for grant programs often contain helpful information for recipients, including frequently asked questions and contact information.

- **Code of Federal Regulations.** Many federal agencies and grant programs have implementing regulations that are published in the Federal Register and codified in the Code of Federal Regulations. For example, Sections 660 through 671 of Title 20, Code of Federal Regulations set forth the regulatory requirements that are applicable to programs operated with funds provided under Title I of Workforce Investment Act. One of the requirements of this program is that information and complaints involving criminal fraud, waste, abuse or other criminal activity must be reported immediately to the Department of Labor Office of Inspector General, in accordance with 20 C.F.R. § 667.

- **Catalog of Federal Domestic Assistance Website.** (https://www.cfda.gov). The Catalog of Federal Domestic Assistance (CFDA) has descriptions of most grant programs, as well as citations to implementing regulations and laws. Award agreements often identify the grant program CFDA number.

- **Program-Specific Legislation.** Statutes often require or allow the implementation of specific grant programs, or otherwise regulate grant programs. One example is the American Recovery and Reinvestment Act of 2009. Another example is Section 665 of the Title 18, U.S. Code, which is a criminal statute that prohibits embezzlement of funds received under the Job Training Partnership Act and Title I of the Workforce Investment Act of 1998.

- **Grants.gov.** Grants.gov is a central database for information on over 1,000 grant programs and provides access to approximately $500 billion in annual awards. The Department of Health and Human Services manages the website www.Grants.gov.

Grant recipients must ensure that grant rules, laws, regulations, and guidance are strictly followed and maintain adequate documentation that those rules are being followed. Federal auditors and investigators, including those from Offices of Inspectors General, conduct site visits, audits, reviews, and investigations of recipients’ adherence to grant rules. Monitoring
activities are also conducted by awarding agencies, the U.S. Government Accountability Office, and state and local monitoring agencies, such as state auditors. Grant recipients may ensure compliance with grant rules by proper training of program managers and employees and maintaining close communication with awarding agencies to ensure expenditures are authorized and allowed.

Interactive Questions

The questions and answers have been removed from this public version of the grant training framework document to help ensure the integrity of trainee tests.
II. GRANT FRAUD INDICATORS

This module on “Grant Fraud Indicators” will provide training participants with general information about common fraud indicators. The module will describe some common traits or “red flags” that may indicate fraud is occurring or has occurred. In addition, this module will identify sources of information where grant administrators can obtain additional information on fraud indicators.

Sources of Information

- NSF OIG Possible Grant Fraud Indicators (http://www.nsf.gov/oig/FraudIndicators.pdf).
- DOJ OIG Grant Fraud Awareness Presentation (http://www.justice.gov/oig/recovery/docs/GrantFraudPresentation.pdf).

Training Material

Grant fraud encompasses a wide range of activities, including the theft of grant funds, improper related-party transactions or conflicts of interest, the use of funds for unapproved or unallowable purposes, and failure to follow grant conditions and other requirements. In addition, grant fraud may include omissions or failures to implement the grant properly, such as failing to provide required matching contributions, failing to maintain adequate supporting documentation, or making material misstatements at any point in the grant process. These activities have different consequences depending on many factors, including the level of intent of the individuals involved. Violations of grant laws and regulations should be reported to the Inspector General of the awarding agency in a timely manner.¹⁹

Grant fraud and other misuses of funds can result in severe penalties, such as criminal prosecutions, civil fraud remedies, and a wide variety of administrative actions. Grant recipients that misuse grant funds risk the termination of current or future funding, the recovery of funds, suspension and debarment of individuals and entities, and the implementation of special conditions on future awards.

¹⁹ Agency Inspectors General are listed on the Council of the Inspectors General on Integrity and Efficiency website (http://www.ignet.gov/igs/homepage1.html).
Grant recipients, sub-grant recipients, and contractors may exhibit “red flags” or indicators that the organization or individual is at a heightened risk for fraud. These indicators by themselves do not prove that fraud is occurring; however, recipients and employees exhibiting these indicators should be monitored closely to ensure grant funds are used properly, and indicators may draw attention from investigators. Recipients and employees that exhibit more than one indicator are at higher risk for fraud.

Potential Grant Fraud Indicators

These Grant Fraud indicators are developed based on the experience of federal auditors, investigators, and other grant managers experienced in working with grant fraud and general misuse or misapplication of grant funds. Recipients exhibiting the following indicators may be considered a higher risk for grant fraud and should be monitored closely to ensure that grant fraud does not occur or is reported to the appropriate OIG. The indicators are organized according to the areas of review grant managers must evaluate in order to identify the indicators.

Structure of Recipient Organization and Grant Program. Grant administrators should closely examine recipients’ organizational design, policies and procedures, and staff. Grant application narratives, budgets, project proposals, and progress reports may give insight into these structural or organizational issues as well.

- The design of a grant project may make it very difficult to track and assess its objectives, metrics, and progress, as well as the costs associated with such a project. A grant project that by its design or purpose is difficult to assess or track its progress may indicate that a recipient is attempting to disguise the failure of a fraudulent program. For example, a program that has no performance metrics, or includes objectives that have already been completed at the time of application represents an improper design. In addition, applications that present desired goals that appear excessively ambitious may be considered high-risk.

- The lack of proper internal controls, such as separation of duties, or unsupervised use of checking accounts, cash, debit, or credit cards that does not require supervisory approval, may indicate a heightened risk for misuse of grant funds.

- A recipient that has questionable financial viability, such as a high percentage of assets funded by debt or insufficient cash flow, may indicate a higher risk.

- Organizations with an ineffective or unqualified Board of Directors (Board) may represent a higher risk for grant fraud. For example, a Board that meets infrequently or not at all, does not document meeting minutes or decision items, or does not approve key personnel decisions may indicate that the Board does not provide adequate oversight. Boards of Directors must provide adequate oversight and direction. The Internal Revenue Service (IRS) published guidance on Governance and Related Topics for
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501(c)(3) Organizations, which provides general guidance for public charities.\(^{20}\) The discussion topics and recommendations discussed within the IRS guidance may also be informative for other grant recipients with boards of directors.\(^{21}\) The guidance states that governing boards should be composed of persons who are informed and active in overseeing a charity’s operations and finances. The guidance further states that the IRS encourages governing bodies and authorized sub-committees to take steps to ensure that minutes of their meetings, and actions taken by written action or outside of meetings, are contemporaneously documented. The IRS issues additional guidance for public and private charities, including required provisions within the organizing documents of organizations, as do some states.

- Organizations that have personnel with excessive debt or gambling issues, or employees that clearly live outside their means, may present a higher risk for fraud. Grant managers may check public information sources, such as public local and federal criminal and civil court information, court judgments, the Excluded Parties List System (EPLS), and other public sources for information on parties responsible for grant administration.

- An underperforming or failing grant program is a key indicator that grant funds may not have been applied to the program properly and instead may have been misused.

- Grant recipients should avoid or scrutinize transactions with organizations that exhibit signs of actual or possible conflicts of interests, and should avoid the appearance of conflicts. According to the IRS, a conflict of interest occurs when a person in a position of authority over an organization, such as a director, officer, or manager, may benefit personally from a decision he or she could make.\(^{22}\) Conflict of interest red flags include organizations that engage in transactions that are less than “arm’s length” indicating there may be a bargain or gift element,\(^{23}\) such as transactions with friends and relatives, or receiving gifts from contractors. In addition, transactions with organizations that have several employees or Board members who are related should be highly scrutinized. Directors on the Board should not be related to each other, and they should not be related to employees of the organization. In this way, the organization may avoid an


\(^{21}\) The IRS guidance states that although it is generally directed to public charities, private foundations and other exempt organizations should also consider these topics. The guidance also states that tax law generally does not mandate particular management structures, operational policies, or administrative practices for 501(c)(3) organizations.


\(^{23}\) The IRS defines an arm’s length transaction as a transaction where there is no bargain or gift element for affection or other reasons (http://www.irs.gov/instructions/i706a/ch02.html, accessed June 16, 2011).
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appearance of a conflict with the Board’s independence and ability to oversee the organization.

Payment Requests or Drawdown of Grant Funds. Grant administrators should also be aware of issues relating to the frequency and nature of the recipients’ drawdown or grant fund payment requests, particularly with respect to the rules and regulations governing the specific grant project.

- A recipient that draws all or most of the grant funds shortly after the grant is awarded may be characteristic of a higher risk, unless this practice is allowed by the grant program. Many grant programs are structured as reimbursements, which would require expenditures to be incurred before drawing the funds.

- A recipient of a reimbursement grant that draws grant funds using numbers rounded to the nearest hundred, thousand, or greater may indicate funds are not being drawn on a reimbursement basis.

- Insufficient justification or documentation for each drawdown request, such as scant expenditure data and estimates for advances if allowable, indicates a heightened risk.

- Drawdown requests made well after the award periods have ended, particularly if a drawdown is made after the date the final drawdown is allowed, may indicate that recipients are drawing funds for unallowable expenditures.

- Any drawdown made from one grant for the purposes of covering the costs of another grant program are likely unallowable and should be reviewed closely.

- Payment requests that exceed expenditures recorded for the same period in the accounting system or a Federal Financial Report may need closer examination. These types of requests may be for unallowable purposes, or may indicate that internal controls governing accounting entries and financial reports need improvement.

Monitoring Reports and Activities. Grant administrators may gain much useful information from reviewing audit reports and conducting other monitoring activities.

- A recipient that does not respond to requests for additional information or documentation may indicate the recipient may be trying to conceal something.

- A recipient that provides inconsistent or illogical explanations about how grant funds are being used or the status of the program may have misused grant funds.

- OMB A-133 Single Audits and accompanying management letters should be reviewed and closely scrutinized for findings or other reportable matters that may indicate fraud. For example, potential indicators may include: an adverse opinion, repeated findings of
questioned costs or significant internal control deficiencies, or a grantee with little or no audit history.

- Grant administrators often conduct routine reviews of grants as part of the normal monitoring activities. Recipients should design adequate internal controls in order to complete such audits or reviews in a successful manner. Multiple queries from local, state or federal law enforcement or audit offices which cannot be answered easily with supporting documentation may indicate fraud is occurring.

- Recipient staff who are uncooperative with monitoring activities or aggressive towards grant auditors or managers may indicate fraud is occurring. For instance, individuals committing fraud may never take vacations and shun working with others to avoid someone else from performing his/her duties and uncovering the fraud.

Transactional-Level Activity. For many grant programs, transactional activity will only be available to federal agencies by requesting it from recipients, unless a centralized reporting or data system containing transaction-level data is accessible to federal grant administrators. Recipients should routinely review accounting records and other transaction documentation to identify potential issues.

- Unusual financial trends may indicate that suspicious transactions, including fraud, are taking place. The individual characteristics that constitute “unusual” financial trends or “suspicious” transactions may vary depending on the nature of the grant recipient and many other factors and circumstances. Grant administrators reviewing financial trends for indicators of fraud should be well aware of the trends that are normal so that aberrational transactions may be identified.

- Salary or other compensation for personal services that exceed agency-approved amounts, or are higher than compensation for other comparable services that are not grant-funded, may be indicative of fraud.

- Excessive, illogical, or unmonitored high-risk transactions are often involved in fraud. These transactions may include excessive or unmonitored cash and credit/debit cards, unjustified purchases or uses of gift cards, and unmonitored bank accounts.

- Questionable or unusual transactions immediately preceding the end of a grant award period may indicate that fraudsters waited until the end of the project to draw down grant funds to cover unallowable costs. For example, large equipment purchases at the end of an award period with no plans to continue the grant program may indicate the federally-funded equipment may have been misappropriated.

- Evidence that recipients are funding grant projects with more than one grant may be an indicator of fraud, particularly if those grants are from more than one federal, state,
local, or private agency. This is particularly risky if the recipient did not disclose the use of multiple grants on its application. Recipients and grant managers monitoring multiple grants should ensure the same expenditures are not being charged to more than one grant, and that one grant is not being used to cover the costs of another.

- Some grants recipients are required to contribute a certain amount of local funds towards the implementation of grant programs. These contributions are known as “matching costs” and are often required by the law that authorizes the grant program. Grant recipients may be authorized to provide a “cash match,” which includes local funds spent for project-related costs that supplement the federal funds. In addition, “in-kind” matches may be authorized, which includes but are not limited to the valuation of in-kind services. However, some grant programs do not allow grant recipients to use funds from certain sources to fulfill these requirements. Evidence that a recipient is using unallowable sources to cover matching cost requirements is an indicator of possible fraud. For example, the Department of Justice Office of Justice Programs Financial Guide does not allow the use of acquired land to be used as a cash match. In addition, in-kind matches should be scrutinized to ensure that the grant program allows for them and that valuations are reasonable and not inflated. Grant managers should ensure that matching cost requirements are only fulfilled with funds from allowable sources.

- Information related to forgeries of signatures, alteration of invoices, receipts, timesheets, payroll information, or other documentation is likely indicative of fraud. Recipients should not fraudulently reconstruct documents in an effort to support costs.

- Unclear, unsupportable, or inconsistent indirect cost rates should be examined closely. Rates must be properly calculated, approved, supported, adjusted (as necessary), and applied.

Contractors and Consultants. Grant recipients and administrators should review applicable contractor/consultant policies, practices, and transactions to identify the following red flags.

- Grant fund recipients with deficiencies in their procurement systems should be closely monitored, such as those with inadequate policies that do not require adequate oversight and approvals to ensure appropriate separation of duties. In addition, several high-dollar transactions with a single vendor may present a heightened risk.

- Recipients that expend funds on unapproved purchases, or unapproved sole-source or no-bid contracts may be indicative of fraud.

- The use of generic, non-specific, or nebulous consultants may present a heightened risk.

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24 U.S. Department of Justice, Office of Justice Programs, Financial Guide (October 2009), 45.
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• Related party transactions and activities may be indicators of fraud. Examples of these activities include hiring family members, purchasing goods or services from a company owned or controlled by the grant recipient, or transactions involving a bargain or gift element.

• Fraudulent payments may be disguised as payments to service providers or other vendors without written agreements or contracts in place. In addition, insufficient justification and documentation for payments made to contractors/consultants, such as hours worked and activities, may represent fraud.

Interactive Questions

The questions and answers have been removed from this public version of the grant training framework document to help ensure the integrity of trainee tests.
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III. INTERNAL CONTROLS

This module on Internal Controls will explain the purpose of internal controls and provide grant administrators with prudent practices and guidance to enhance a system of internal controls. In addition, it will emphasize that federal agencies may impose specific internal control requirements to be implemented as a condition of receiving the grant. As with the other modules, grant recipients must review the award agreement and regulations referred to therein.

Sources of Information

- Federal Agency Internal Control Criteria (for example, sections on Standards for Financial Management Systems and Equipment within applicable Uniform Administrative Requirements).

Training Material

Internal controls in government projects help to ensure that grant projects are effectively implemented in an efficient manner that minimizes the risk for grant fraud, waste, mismanagement, and abuse. Internal controls can also help ensure that government funds are used for the designated purpose, adequate documentation is maintained for grant charges, and grant objectives are accomplished.

Standards for Internal Control

A Government Accountability Office (GAO) report on Standards for Internal Control in the Federal Government defines internal control as an integral component of an organization’s management that provides reasonable assurance that the following objectives are being achieved: (1) effectiveness and efficiency of operations, (2) reliability of financial reporting, and (3) compliance with applicable laws and regulations.25 The GAO report offers five standards for internal control, which are also those offered by the Committee of Sponsoring Organizations (COSO) Internal Control - Integrated Framework. These standards are described below.

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1. **Control Environment**

- Management and employees should establish and maintain a culture throughout the organization that sets a positive and supportive attitude toward internal control and conscientious management.

The Control Environment standard relates to management’s commitment to ethical, regulatory, and organizational policies and the implementation of effective operating procedures. Management may exemplify its commitment to these principles by establishing ethics, compliance, and fraud awareness training programs. For example, grant recipients may establish a compliance and ethics committee and require annual training for all applicable employees that covers ethics issues, grant requirements and how to comply, and practices to help prevent fraud.

Compliance and ethics programs are discussed in the U.S. Sentencing Guidelines. The Guidelines were developed by the U.S. Sentencing Commission, which is an independent agency in the judicial branch whose principal purpose is to establish sentencing policies and practices for the federal criminal justice system. Specifically, the Guidelines identify the existence of an effective compliance and ethics program as one of two mitigating factors for federal sentencing courts to consider in the punishment of organizations convicted of applicable offenses. The Guidelines also describe characteristics of an effective compliance and ethics program, including due diligence to prevent and detect criminal conduct and the promotion of an organizational culture that encourages ethical conduct and a commitment to compliance with the law. The Guidelines also state that an organization shall take reasonable steps to communicate to appropriate officials its standards and procedures, and other aspects of the compliance and ethics program, by conducting effective training and otherwise disseminating appropriate information to the proper officials.

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28 The other mitigating factor identified is self-reporting, cooperation, or acceptance of responsibility. U.S. Sentencing Guidelines, Chapter 8, introductory cmt. (2010). The Guidelines also state that organizations can act only through agents and, under federal criminal law, generally are vicariously liable for offenses committed by their agents. The Guidelines state that Chapter 8 applies to the sentencing of all organizations for felony and Class A misdemeanor offenses. U.S. Sentencing Guidelines § 8A1.1 (2010).


2. **Risk Assessment**

- Internal controls should provide for an assessment of the risks the agency faces from both external and internal sources.

Unclear or vague objectives, statements of work, or grant purposes can be risk factors that interfere with the effective implementation of the grant project. If ambiguity exists within the project objectives, the risk for using grant funds for expenditures outside the scope of the project may increase. A clearly written and defined application should also state how the grant will be evaluated for completeness, as well as the reporting requirements and frequency. An effective risk assessment will identify these and other risks to the completion of grant goals.

Periodic and frequent risk assessments should be performed to ensure an adequate system of internal controls. Grant recipients should develop standard forms and checklists to provide grant managers with minimum assessment procedures. These checklists should include specific and detailed checks that are required to be performed and are applicable to all the programs they are intended to assess, such as determining: “Is there adequate staff to sufficiently separate key financial management duties, such as deposit receipt, deposit verification, bank reconciliation, incurring and approving expenditures?”

Recipients should also build in sufficient flexibility into the checklists so that they can be tailored to particular grant programs. These forms and checklists should allow for modifications to be made in order to assess specific concerns that may be unique to different grant programs, or to different portions of the programs’ implementation. For example, a minimum assessment checklist may require managers to assess contractors’ timeliness and quality of deliverables, such as reports and computer systems; however, checklists should also allow managers to review the unique risks that may apply to the deliverables, or assess contractors’ progress on services that do not specifically provide a deliverable, such as legal or substance abuse prevention services, that may require more unique tests to assess. Procedures can be added to checklists that are worded broadly enough to incorporate a wide variety of programs.

3. **Control Activities**

- Internal control activities help ensure that management’s directives are carried out. The control activities should be effective and efficient in accomplishing the agency's control objectives.

Grant recipients should establish control mechanisms that provide oversight to ensure the project is being implemented as planned and that the program objectives are effectively being accomplished. Control mechanisms include ledgers that document expenditures in accordance with government regulations, management information systems that report work done on a weekly or monthly basis, and/or a final report on the project’s implementation and results.
4. **Information and Communications**

- Information should be recorded and communicated to management and others within the entity who need it and in a form and within a time frame that enables them to carry out their internal control and other responsibilities.

Policies should not only be written to ensure consistency, but should be communicated to management through training and other reinforcement mechanisms.

5. **Monitoring**

- Internal control monitoring should assess the quality of performance over time and ensure that adverse findings of audits and other reviews are promptly resolved.

A consistent and effective monitoring program goes hand-in-hand with a system of internal controls. Expenditures, program implementation, sub-recipients, consultants, and contractors should be closely monitored through a system of reports, authorizations, and other checks and balances. For example, periodic site visits of contractors, sub-recipients, and program sites should be conducted. Activity reports and milestone accomplishments should be well documented and frequently reported to help ensure projects are being implemented effectively. Periodic internal audits should be conducted and all audit findings (internal and external) should be addressed promptly and resolved effectively.

**Systems of Internal Controls**

Grant recipients should develop systems of internal controls for programmatic and financial systems.

**Program Management Systems**

A government-funded grant project is an agreement between the recipient and the U.S. government that a certain project will be implemented within the project period. As such, grant recipients should implement a system of controls to ensure the project objectives are being completed as planned in an efficient and timely manner. Periodic reports detailing progress on milestones and results are often required and help grant administrators ensure that progress is being made. In addition, grant recipients should develop, track, and report performance metrics in order to ensure effective implementation of the program. OIG program and other audits will often assess the implementation of the programs through these monitoring mechanisms.

In addition, equipment purchased with grant funds is required to be used in accordance with grant terms and conditions and usually requires a system of internal controls for tracking the equipment and ensuring it is being used for the program. Grant recipients should review grant
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regulations and award agreements to determine what types of controls are required for equipment.

Financial Management Systems

Financial internal controls are processes and procedures designed to help ensure funds are disbursed appropriately and in accordance with applicable rules. For example, internal controls should ensure funds are used for appropriate purposes, disbursed to the correct parties, have adequate supporting documentation, and that the accurate figures are recorded in accounting and tracking systems. Therefore, a grant recipient that writes a check to an employee for reimbursement of an expense should have a procedure established to document the validity and accuracy of the purpose, recipient, amount, and approval of the disbursement. It is important to note that “trust” is not a key component of a good system of internal controls. Internal controls must be well designed and consistently adhered to in order to help reduce the risk of fraud or other misuses of funds.

Most federal grant awarding agencies have codified Uniform Administrative Requirements within their Code of Federal Regulations (C.F.R.), and grant recipients should refer to the section within these requirements that discusses Financial Management Systems. For instance, the Uniform Administrative Requirements generally applicable to Department of Justice (DOJ) state, local and Indian tribal government recipients is codified within the Department of Justice Code of Federal Regulations (28 C.F.R. § 66.20). Within this regulation is a provision entitled Standards for Financial Management Systems, which describes the basic requirements that financial management systems should meet:

1. **Financial Reporting.** Grant recipients must make accurate, current, and complete disclosure of the financial results of financially assisted activities in accordance with the financial reporting requirements of the grant or sub-grant.

2. **Accounting Records.** Grantees and sub-grantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or sub-grant awards and authorizations, obligations, unobligated balances, assets, liabilities, expenditures, and income.

3. **Internal Control.** Effective control and accountability must be maintained for all grant and sub-grant cash, real and personal property, and other assets. Grantees and sub-grantees must safeguard such property and must assure that it is used solely for authorized purposes.

4. **Budget Control.** Actual expenditures or outlays must be compared with budgeted amounts for each grant or sub-grant. Financial information must be related to performance or productivity data, including the development of unit cost information whenever appropriate or specifically required in the grant or sub-grant agreement. If
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Unit-cost data are required, estimates based on available documentation will be accepted whenever possible.

5. **Allowable Cost.** Grant recipients must follow applicable OMB cost principles, agency program regulations, and the terms of grant and sub-grant agreements in determining the reasonableness, allowability, and allocability of costs.

6. **Source Documentation.** Accounting records must be supported by source documentation, such as cancelled checks, paid bills, payrolls, time and attendance records, contract and sub-grant award documents.

7. **Cash Management.** Grant recipients must follow procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and sub-grantees whenever advance payment procedures are used. Grant recipients must establish reasonable procedures to ensure the receipt of reports on sub-grantees' cash balances and cash disbursements in sufficient time to enable them to prepare complete and accurate cash transactions reports to the awarding agency. When advances are made by letter-of-credit or electronic transfer of funds methods, the grant recipient must make drawdowns as close as possible to the time of making disbursements. Grant recipients must monitor cash drawdowns by their sub-grantees in order to assure that they conform substantially to the same standards of timing and amount as apply to advances to the grantees.

The standards listed above are not applicable to all grant recipients, and agencies may impose other requirements. For instance, DOJ regulations contain different standards that must be followed by applicable institutions of higher education, hospitals, and other non-profit organizations (28 C.F.R. Part 70). In addition, recipients of DOJ Office of Justice Programs (OJP) grants must abide by the OJP Financial Guide, which details standards for financial management systems. Grant recipients should review their award agreement and contact their awarding agency with questions about minimum requirements for any particular grant.

**Interactive Questions**

*The questions and answers have been removed from this public version of the grant training framework document to help ensure the integrity of trainee tests.*
IV. PRUDENT PRACTICES FOR FRAUD PREVENTION AND DETECTION

This module on Prudent Practices for Fraud Prevention and Detection will discuss general monitoring and detection activities that grant administrators perform to identify and prevent fraud. Some of the information discussed in this module may be incorporated into an organization’s risk assessment.

Sources of Information

- The National Procurement Fraud Task Force Grant Fraud presentation (http://www.grants.gov/assets/GrantFraud.pdf).
- HHS OIG Outreach (http://oig.hhs.gov/fraud/PhysicianEducation/).

Training Content

Grant recipients should take measures to prevent, deter and detect fraud or other misuses of grant funds. Violations of grant laws and regulations should be reported to the Inspector General of the awarding agency. Agency Inspectors General are listed on the Council of the Inspectors General on Integrity and Efficiency website (http://www.ignet.gov/igs/homepage1.html). A few examples of prudent practices are listed below:

**Bank Statement Reconciliations.** Close examinations of checks and bank statements may lead to the identification of fraud. For example, schemes in which authorized individuals write checks to themselves may be identified if cancelled checks are compared with accounting entries of check registers, which may have been forged. Grant recipients should pay close attention to checks and transactions that occur several times per month, are issued to unknown vendors or multiple vendors at the same address, are issued for unusual amounts, or otherwise do not follow normal patterns. Grant recipients should institute adequate separation of duties and appropriate levels of authorizations and reviews in order to help prevent such schemes.

**Compliance Program.** Grant recipients should establish an organizational compliance program to ensure recipients of federal funds adhere to agency policies and regulations. Elements of an effective compliance program should include: (1) reasonable compliance standards and procedures; (2) specific high-level personnel responsible for the program; (3) exercise of due care in assignments with substantial discretionary authority; (4) effective communication of standards and procedures; (5)
monitoring, auditing, and reporting systems; (6) consistent enforcement of standards through appropriate mechanisms; and (7) an appropriate response to a violation of law or regulation.

Conflicts of Interest. Grant recipients should refer potential conflicts of interest to legal counsel or the granting agency in writing and request a written opinion. Contracts should generally be competitively bid and all transactions should be made at “arms length” with no indication there was a bargain or gift element to the transaction.31

Data Analysis. Grant recipients should conduct periodic analysis of aggregate data to identify and investigate indications that fraud is occurring. Data analysis can reveal transactional-level fraud indicators. For example, grant managers should review transaction data on a periodic basis and investigate any outlier transactions that do not follow the “normal” patterns, or are otherwise suspicious. Some transactions that may require additional review include excessive number and value of payments to a single vendor, whole dollar amounts when transactions should represent actual costs, and payments to unapproved vendors. The characteristics that indicate a transaction is unusual or suspicious may vary depending on several factors, including the nature of the grant recipient. Other risky transactions that data analysis can identify are unmonitored, illogical, or unjustifiable purchases that may not relate to the grant program. For example, transactions that bypass normal review procedures, or are otherwise unmonitored or reviewed by another person may require additional scrutiny. Purchases that appear illogical considering the nature of the grant program should be more closely reviewed, for example purchasing scuba diving equipment for a grant program to provide legal assistance to domestic violence victims. Unjustifiable purchases may include those that are unreasonably expensive or do not relate to the grant program objectives. Expenditures outside of the allowable project period should also be investigated, as should any analysis results that may indicate forgeries or document alterations.

Documentation. Grant recipients must maintain and submit when requested, adequate support for all of their assertions and representations made to federal agencies. Financial status reports, narrative progress reports, and funds requests must be supported by verifiable facts that prove justifiable expenses have been incurred to advance the program objectives. Before these reports or requests are submitted to the grant-awarding agency, grant recipients should ensure that the documents are reviewed for accuracy, sufficiency, and completeness. Grant recipients should properly capture and disclose program income. If grant-funded organizations receive funds from multiple sources for the same program or overlapping purposes, they should carefully plan and document the receipt and use of each of these sources

31 The IRS defines an arm’s length transaction as a transaction where there is no bargain or gift element for affection or other reasons, (http://www.irs.gov/instructions/i706a/ch02.html, accessed June 16, 2011).
of funds. Grant supervisors should periodically request and review documentation for expenditures in order to ensure that the documentation is adequate and that expenses are not fraudulent. Grant recipients should be aware of all expenditures and ensure that payments are not made to fraudulent or fictitious employees or vendors. To help prevent or detect these schemes, supervisors should periodically call vendors and conduct unannounced program and contractor site visits to ensure the validity of services and that payments are legitimate.

**Internal Controls.** Properly designed and implemented internal controls are a cornerstone of a healthy organization. The U.S. Government Accountability Office (GAO) report on Standards for Internal Control in the Federal Government defines internal control as an integral component of an organization’s management that provides reasonable assurance that the following objectives are being achieved: (1) effectiveness and efficiency of operations, (2) reliability of financial reporting, and (3) compliance with applicable laws and regulations. The GAO report offers five standards for internal control: (1) Control Environment, (2) Risk Assessment, (3) Control Activities, (4) Information and Communications, and (5) Monitoring. These standards are described in the GAO report.

Grant recipients should regularly verify the proper design and implementation of such controls and ensure that grant administrators and grant project managers know and understand such controls. For example, grant recipients should develop written procedures for properly recording time and personnel costs and regularly remind employees of the importance of maintaining accurate time records. Internal controls are essential for financial management systems to help ensure funds are disbursed appropriately and in accordance with applicable rules. In addition, internal controls should be developed for program management systems to ensure the project objectives are being completed as planned in an efficient and timely manner.

In addition, grant recipients should ensure that there is a written procurement procedure in place and that it is followed. For example, procurement policies should help ensure procurement transactions avoid the appearance of conflicts of interests between procurement officials and vendors and that sufficient competitive bidding processes are used to ensure the government is receiving the best deal for grant purchases. Many grant recipients abide by state or local government procurement rules, so a primary challenge is to ensure the procedures are followed and properly documented. Grant recipients must carefully review consulting contracts and ensure consultants are necessary and that the contract clearly identifies the work that will be completed, how progress will be measured and monitored, the compensation, and where the work will take place.

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33 GAO, *Standards for Internal Control in the Federal Government*. 

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Open Lines of Communication. Grant recipients should ensure that they have open lines of communication with granting agencies and program managers regarding budget adjustments, program changes, or specific implementation challenges. Grant recipients should ensure all technical progress reports are submitted on time. In addition, grant recipients should ensure that sub-recipients, such as contractors and sub-grant recipients, have open lines of communication with the grant recipient, and that employees have open lines of communication to management. Open lines of communication will increase the likelihood that possible grant fraud is reported to appropriate officials.

Risk Assessment. Because risk management requires careful consideration of the particular risks a grant recipient faces, they should carefully consider their specific fraud or other control risks and identify ways to mitigate them. For example, almost every entity faces risks related to timesheet manipulation and credit card abuse associated with travel or procurement. Also, grant recipients may intentionally or unknowingly pay 100 percent of an individual’s salary with grant funds even though they are not actually involved in the program or have a minor role that does not justify a 100 percent charge.

Suspension and Debarment. Grant recipients should regularly check state and federal suspension and debarment lists when entering into sub-grants, making hiring decisions, or entering into contracts or consulting agreements. Debarred and suspended entities are identified on the Excluded Parties List System (EPLS) maintained by the General Services Administration (GSA). Entities identified in the EPLS are generally ineligible from receiving certain federal contracts, subcontracts, federal assistance, and benefits.

Training. Grant recipient employees, officers, boards of directors, and others should be required to attend mandatory annual training and engage in discussions on fraud prevention and detection, compliance with granting agency requirements, and other topics of interest and importance. The more individuals that are involved in this process, the more likely issues can be either prevented or identified early and corrected.

Whistleblowing. Grant recipients should ensure they have open lines of communication between their employees and grant administrators. Grant recipients should implement internal “hotlines” that allow anonymous complaints and post OIG contact information in common areas. Grant recipients must ensure that they do not retaliate against whistleblower employees.

Interactive Questions

The questions and answers have been removed from this public version of the grant training framework document to help ensure the integrity of trainee tests.
V. MANAGING GRANT CHALLENGES

This module on Grant Management will discuss practices that will help address common grant management challenges. While this module is not intended to provide rigid requirements for grant recipients, it will enhance grant recipients’ ability to identify areas where additional guidance should be sought. Grant recipients should refer to their award agreement for applicable regulations that will provide the specific requirements for their grant and contact the awarding agency for additional guidance.

Sources of Information


Training Material

Grant recipients may encounter several different challenges when managing grants. Specific types of grants may have inherent challenges, such as monitoring sub-contractors and sub-recipients, or technical issues may arise. Below are examples of three areas of prudent practices that grant recipients may follow to help minimize and manage grant management challenges: (1) creating and implementing well-developed internal controls; (2) maintaining adequate documentation for grant-related activities; and (3) maintaining an effective accounting system. Throughout the implementation of a grant program, grant recipients should contact awarding agencies and review award documents for additional guidance for managing grant challenges.

Well-Developed Internal Controls

The Standards for Internal Control in the Federal Government defines internal control as an integral component of an organization’s management that provides reasonable assurance that the following objectives are being achieved: (1) effectiveness and efficiency of operations, (2) reliability of financial reporting, and (3) compliance with applicable laws and regulations. These include systematic measures, such as reviews, supervisory authorizations, and written procedures that an organization uses to conduct business in an orderly and efficient manner. Effective internal controls are beneficial because they help safeguard the awarded grant money; deter and detect errors, fraud, and theft; ensure accuracy and completeness of accounting data; assist the grant recipient to reliably and timely provide financial and 

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management information; and ensure that grant recipients adhere to policies and satisfy grant requirements. Grant recipient organizations should continually assess and evaluate internal controls, and they should improve and update these controls when necessary.

People are what make internal controls work. For example, if a person performing the control does not have the necessary authority or competence to perform their job effectively, that would create a weak link in the system of internal controls. Examples of basic controls that will help prevent common mismanagement are as follows:

**Adequate Monitoring.** Grant recipients should monitor the grant work on a regular basis, as this will help prevent mismanagement. Discrepancies discovered as a result of monitoring activities should be examined in a timely manner and any mismanagement concerns should be resolved quickly. Grant recipients must maintain documentation of expenses incurred and documented proof of site visits of contractors and sub-grant recipients.

**Formal Organizational Documents.** The structure of the organization should be explicitly documented. Qualifications for members of Boards of Directors should be formally approved to help ensure qualified individuals provide direction for the organization. Board members should not include employees of the organization to avoid the appearance of conflicts of interest. Audit committees should report to the Board of Directors to ensure audit findings and potential fraud are adequately reported and that the Board has the opportunity to hold organization officials accountable. Audit Committees should not report directly to the president or equivalent officer that may be held accountable for any mismanagement, but the appropriate management officials should be provided a copy of the audit findings and an opportunity to respond to help ensure all the facts are presented to the Board. Board meetings should be memorialized in meeting minutes that identify key decisions to help ensure organization officials can easily refer to decision items and requirements, and provide some continuity for future administering officials. In addition, grant recipients should maintain an updated organizational chart establishing clear lines of responsibility and authority to help ensure efficient operations.

**Formal Written Policies.** Formal written policies setting forth procedures help ensure operational effectiveness and efficiency by providing written guidance to which grant recipients and other officials can refer. The policies should be adequately written to ensure officials have clear and relevant guidance for the completion of duties and responsibilities. Written policies enable grant administrators to provide appropriate oversight over the life of a grant, and help ensure effective continuity of operations in case of personnel turnover.

**Reconciliations.** Grant recipients should perform reconciliations in order to ensure grant activity is accurately recorded and reported and to help prevent and detect fraud. At a minimum, periodic and frequent reconciliations should be performed for bank statements, accounting records, checks for payment, credit card statements, grant drawdowns, Federal Financial Reports submitted to federal agencies, and other grant-related administrative and programmatic activity. The grant recipient organization should separate reconciliation duties in
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order to ensure the opportunity for fraud is reduced. For example, individuals responsible for authorizing checks for payment should not perform bank statement reconciliations.

Grant recipients should carefully design reconciliations in order to ensure the statements or forms are reconcilable, meaning they have similar information that can be compared and matched. For example, checks authorized can be compared with checks paid. The specific reconciliations that can and should be performed will depend on each recipient’s policies, procedures, methods of payment, grant activities, and other factors. Below are some examples of reconciliations that grant recipients should consider performing.

- Accounting system transactions according to grant budget category with approved grant budget. For example, cumulative expenditures for personnel costs should be compared against the amounts approved for personnel costs for each grant.
- Bank deposits with program income receipt log.
- Bank statement transactions with accounting system transactions, cancelled checks, and check registers.
- Cancelled checks with list of authorized vendors, accounting system transactions, and check register.
- Contractor personnel charges with authorized timesheets and activity reports.
- Credit card statements with accounting system transactions.
- Grant drawdowns with bank account deposits.
- Grant drawdowns with grant-related transactions from the accounting system.
- Grant-funded payroll with personnel authorized to work on grant.
- Payroll documentation and direct deposit amounts with authorized timesheets.
- Progress report data on conferences with conference authorizations, or other similar documentation.
- Total compensation for each individual with total hours worked.
- Travel charges with travel authorizations and vouchers.

Grant recipients should not attempt to perform reconciliations of information that is irreconcilable. For example, checks authorized can generally not be reconciled with credit card transactions, with the exception of any checks authorized to pay the credit card bill. Performing “invalid” reconciliations does not provide administrators with useful information and can be misleading.

Secure and Safeguard Assets. Grant recipients should implement a plan to enhance building security and keep valuable assets secure. This plan should be based upon the specific circumstances of the grant recipient. For example, grant recipients should ensure that adequate security is in place to prevent loss, damage, or theft of property. In addition, property should be marked to indicate funding source and owner of the property, and tracking numbers such as serial numbers should be documented. Grantees should implement controls to ensure that property cannot be used for unauthorized purposes. Records should document whether title
vests in the grant recipient or the federal government. Grant recipients should conduct reconciliations between inventory records and actual inventory, and resolve any discrepancies.

Separation of Duties. Separation of duties ensures that one person cannot act without someone else being able to check on that person’s actions to help prevent fraud and mismanagement. No single individual should conduct all aspects of financial management, such as entering data in the accounting system, having signatory authority, conducting reconciliations, or performing key grant functions. Systems of checks and balances, authorizations and reviews, and monitoring through duties adequately separated among personnel will reduce the opportunity for fraud by institutionalizing oversight and enhancing the chance that fraud will be detected. As such, individuals that may commit fraud will find it harder to do so with someone else reviewing and authorizing their activities; these individuals may be deterred from committing fraud due to the risk of being caught.

Supervisory Review and Approval. Grant recipients should require supervisory review and approval of expenditures, as well as key programmatic and administrative activities. It should be difficult to override a control or such supervisory approval. If control overrides are allowed to occur, grant recipients should implement a policy for multiple approvals and checks.

Adequate Documentation

To ensure expenditures are appropriate and the goals of grant-funded activities are accomplished, grant recipients must have adequate documentation. Auditors and other reviewers will frequently request documentation for grant activities. Grant activities that are not properly documented may lead to adverse audit findings, as well as law enforcement investigation.

To ensure documentation is adequate, grant recipients should maintain detailed original and unaltered documents. The documentation should contain specific information about particular expenditures and activities. For example, single purchases made for two different grant programs will require that the documentation support the allocation of costs to identify how much should be charged to each grant program. In addition, actual amounts of costs should be used. Any difference between prior estimates and actual amounts must be reconciled.

Also, grant recipients should determine how long records must be retained and must adhere to those requirements. Recipients should seek written concurrences from awarding agencies in advance of incurring unique or unapproved costs in order to avoid disallowance of a cost later deemed unallowable, unreasonable, or nonallocable.  

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35 OMB Circular A-122(A)(6). Each Cost Principle defines allocable. The definition in 2 C.F.R. § 230 states: A cost is allocable to a Federal award if it is treated consistently with other costs incurred for the same purpose in like circumstances and if it: (1) is incurred specifically for the award, (2) benefits both the award and other work and can be distributed in reasonable proportion to the benefits received, or (3) is necessary to the overall operation of the organization, although a direct relationship to any particular cost objective cannot be shown.
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Different types of expenditures and activities require different types of documentation. The adequacy of the documentation depends on several factors, such as the nature of the activity or expense and specific requirements imposed on different grant expenses. There are several factors to consider in assessing the adequacy of documentation, including the following:

1. Adequate justification for the product, service, or activity, including its need and role in furthering the grant objectives.
2. Amount of the purchase and breakdowns for each component of the total aggregate or total amounts.
3. Appropriate approvals, including those from a second reviewer, supervisor, and the awarding agency.
4. Date that the expenditure was incurred, which may be a date range (May 12, 2011 – June 12, 2011);
5. Date that the funds were paid.
6. Method of payment, including account numbers for reconciliation.
7. Source of the funds used to make the purchase, including the specific grant it was charged to or grant allocation methodology and justification.
8. Specific service or product that was purchased.
9. Supplier of the product or service.
10. Who received or benefited from the product or service.

Grant-awarding agencies may apply different documentation requirements for different types of grants, purchases, and activities. For example, some grants require documentation of competitive bidding for contracts, or that materials were purchased from U.S. manufacturers. Grant recipients should refer to the award agreement, applicable rules and regulations, and awarding agency for specific documentation requirements.

In addition, grant recipients should prove that each expenditure was allowable, approved, reasonable, and necessary, and that the expenditure relates directly to the accomplishment of a grant objective. The specific language in each of the OMB Cost Principles varies, but in general, in order for the cost to be considered reasonable, it must be consistent with the action, nature, or amount that a prudent person would take.

Grant recipients should maintain documentation on a continual basis because documentation compiled at a future date is more likely to be inaccurate. Claims that documents were lost or destroyed without a justifiable explanation may be an indication of fraud. Grant recipients should refer to the regulations governing the grant, including applicable OMB Cost Principles, to determine what constitutes appropriate documentation for a particular expenditure or activity.

**Consistent Documentation.** When costs are incurred for the same purpose in like circumstances, special care should be taken to treat those costs consistently as direct or indirect costs.
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For example, Cost Principles for non-profit organizations state that salaries of technical staff, project supplies, computer costs, or travel costs shall be treated as direct costs whenever identifiable to a particular program. The salaries and wages of administrative and pooled clerical staff should normally be treated as indirect costs, but direct charging of these costs may be appropriate where a major project or activity explicitly requires and budgets for administrative or clerical services. Items such as office supplies, postage, periodicals, and memberships should normally be treated as indirect costs.36

Grant recipients cannot charge more for a specific service just because it is grant-funded. Recipients should check applicable grant rules to determine specific requirements, but a few examples of documentation for different types of expenditures are highlighted below:

- **Contractors.** Documentation for contractor expenditures may include detailed invoices, time computation sheets, documentation of hours worked, cost allocation formulas, proof of competitive bidding, and other detailed supports for contractor charges. The adequacy of the documentation will depend on several factors, including the nature of the activity or expense and specific requirements imposed on different grants. Recipients should consult applicable grant rules to determine specific requirements.

- **Equipment.** Grant recipients should establish appropriate policies and procedures for the documentation and tracking of federally-funded equipment. Recipients should conduct periodic inventories. Individual grants may have detailed requirements, including labeling and identifying equipment as federally-funded, tracking and conducting inventory, and depreciating or disposing of equipment after the grant project is completed. Recipients should consult applicable grant rules to determine specific requirements.

- **Personnel.** Appropriate documentation for personnel may include timesheets, activity reports, payroll records, accounting records, time certifications, documentation of supervisory review and approval, and other appropriate support for personnel charges. Like all costs, support for personnel charges should also prove costs are necessary and reasonable, and are not excessive when compared with other costs. Recipients should consult applicable grant rules to determine specific requirements.

- **Reports.** Grant recipients should maintain adequate documentation to support all material statements made to the awarding agencies and other federal reviewers concerning the grant, including statements on periodic progress or activity reports, and Federal Financial Reports. For example, if a grant recipient represents on a progress report that grant funds paid for three conferences, documentation should at a minimum prove that the number of conferences is accurate, that the discussion topics were grant-

36 OMB Circular A-122(D)(4).
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related, and that all costs were allowable. Statistics and numbers reported on progress reports are particularly important for grant recipients to prove with adequate documentation and other support, as applicable. In addition, grant recipients must ensure all information on Federal Financial Reports is verifiable and adequately supported with documentation, including expenditures, program income, matching costs, and other information submitted.

- **Travel Costs.** Grant recipients should maintain receipts and other documentation of travel costs, including support justifying the necessity of the travel. For example, documentation of travel for a conference should include supervisory authorization, agendas, sign-in sheets, or other documents that prove the expenditure was necessary, staff actually attended the conference, and it was for a program-related purpose. Some grant recipients use the U.S. General Services Administration Per Diem Rates to determine reasonable rates for hotel costs and daily allowances for meals and incidentals – this is a requirement of some grants. Unjustified or unsupported costs, including excessive dates of travel, must not be charged to the government. If grant recipients split travel time between personal and official travel, adequate documentation should be maintained to prove personal lodging and other costs were not charged to the grant.

*Accounting Systems*

Grant recipients must maintain adequate accounting systems that effectively record, track, and report appropriate grant-related information. Grant recipients must account for expenditures according to requirements identified in the award agreement. Grant recipients must track grant funds, expenditures, and activities using effective accounting systems. Grant accounting systems should help recipients adhere to award requirements, including all terms and conditions. Some examples of key functions an accounting system should provide include the ability to:

- help ensure adequate implementation of internal controls for grant fund authorizations, expenditures, and activities;
- distinguish grant expenditures from non-grant-related expenditures and identify the specific charges that were charged to each grant;
- identify costs by program;
- identify costs by budget category;
- differentiate between direct and indirect costs;
- account for each award/grant separately;
- effectively track and manage drawdowns and disbursements;
- help ensure sub-grant recipients and contractors abide by applicable grant regulations;
- track cost and use of property and equipment;
- identify matching funds and expenditures, including in-kind contributions;
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- generate summary and detailed financial reports, including periodic financial and programmatic reports required by award terms and conditions; and
- track and correlate accounting information to supporting source documents and financial reports.

Award recipients should also ensure that sub-grant recipients have adequate systems of accounting. Examples of key characteristics of effective accounting systems are discussed in more detail below.

Internal Controls. Effective systems of accounting will contain inherent internal controls to ensure all policies, procedures, rules, and regulations are being followed. Grant recipients should have an accounting system that can clearly demonstrate that grant money was appropriately used. If grant recipient employees do not know or understand the rules, they should contact the awarding agency and ask for advice. Ignorance is not an acceptable excuse for failing to comply with the terms of a grant award.

Financial Statements and Reports. Accounting systems should generate periodic financial reports for grant recipient management to review, such as income statements or equivalent reports, balance sheets, cash flow statements, and key ratios and calculations. For example, Current Ratios (current assets divided by current liabilities) help determine whether the organization has sufficient cash to maintain projects and operations over the next year. In addition, Quick Ratios (cash plus accounts receivable divided by current liabilities) may help determine whether sufficient funds exist to maintain operations for the immediate future. Grant recipient employees responsible for preparing financial status reports should take annual training covering key responsibilities, including terms and requirements of each grant received, fraud awareness, and risk assessments.

Personnel Charges. Grant recipients should be able to identify and report total time charged by each grant-paid individual according to project. Accounting systems should separately account for direct and indirect costs, and the expenditures included in these amounts should not overlap. Grant recipients should conduct periodic reviews of the time charged by individuals and ensure that the total time charged by each grant-paid individual for all projects does not exceed 100 percent of his or her total hours worked.

Project Progress. An effective system of accounting will assist grant recipients in measuring progress on meeting performance measure goals and determine whether grant objectives are being met.

Reliable Records. An effective system of accounting will ensure records are reliable and reviewers can reconcile all drawdowns, Federal Financial Reports, bank statements, credit card statements, and other reports to the records in the system. Grant recipients must record expenditures on a continual basis. In addition, uniform reporting periods should be periodically locked. For example, grant recipients may reconcile monthly drawdowns and financial statements, then lock all the transactions in the month so that they cannot later be changed.
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Backdating transactions to previously reported periods should not occur. The system must support all grant fund drawdowns, and reviewers must be able to reconcile each drawdown to the expenditures incurred for that period. Accounting systems that are unreliable may result in auditors and investigators questioning the credibility of the entire grant.

Interactive Questions

The questions and answers have been removed from this public version of the grant training framework document to help ensure the integrity of trainee tests.