Detecting Fraud, Waste, and Abuse

University of Illinois at Urbana Champaign
Office of University Audits

Darla Hill, Director
Teri Travis, Enterprise-wide Auditor

Agenda

- What is "Fraud, Waste, and Abuse"?
- Why You Should Care?
- Who Commits Fraud?
- Critical Elements of Recent Fraud Cases
- Red Flags of Potential Fraud
- Reporting – Who and How

Fraud, Waste and Abuse – What?

- "... grant fraud encompasses a wide range of improper activities..."[1]
  - Conflict of interest
  - Materially false statements (i.e., lying)
  - Theft

- Unnecessary purchases

- Bloated Prices

[1] Reducing Grant Fraud Risk: A Framework for Grant Training, Financial Fraud Enforcement Task Force, March 2012

Why Should I Care?

Grant Fraud: Big Picture Continuum [1]

Blissfully
Unaware

Intentional
Ignorance

Criminal
Intent

- Repayment
- High Risk Grantee
- Reimbursement
- Stop Work Order
- Termination
- Compliance Agreement
- Suspension & Debarment
- Civil Penalties
- Criminal Prosecution

Administrative Remedies

Criminal & Civil
Remedies

[1] U.S. Department of Justice, Office of the Inspector General, Interdepartmental Tribal Justice Safety and Wellness Session, Grant Fraud Awareness Training June 17, 2010.

Why Should I Care?

- False Claims Act[1] – 31 U.S.C. 3729 – 3733
  - Prohibits the **knowing** submission of false or fraudulent claims
  - What does knowing mean?
  - Encourages whistleblowing with rights and rewards
  - Liability for "avoiding or decreasing…" "obligation to pay"[2]
  - Still applies if we are the sub-recipient

- Federal Acquisition Regulation[3]
  - Add mandatory disclosure requirements for violations of FCA and federal criminal law for certain contracts

[1] 31 U. S. C. 3729-3733
[2] 31 U. S. C. 3729(a)(1)(G)
[3] 48 CFR 3.1003(a)

Profile of a Fraudster[1]

POSITION

The majority of occupational frauds were committed by staff at the employee or managerial level.

42%
Employee

36%
Manager

19%
Owner/Executive

MEDIAN LOSS BY POSITION

The higher the fraudster's level of authority, the greater losses tended to be.

$75,000
Employee
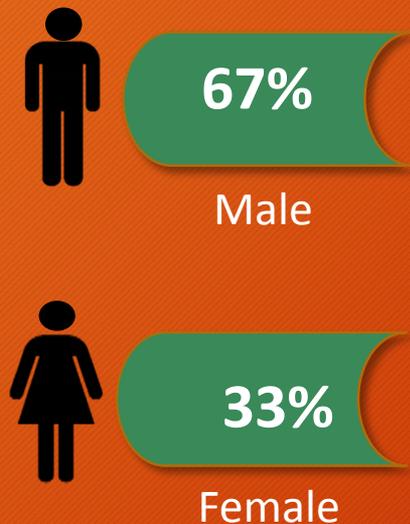
$130,000
Manager

$500,000
Owner/Executive

[1] Association of Certified Fraud Examiners, 2014 Global Fraud Study, *Report to the Nations on Occupational Fraud and Abuse*

Profile of a Fraudster[1] (continued)

AGE

52% of fraudsters were between 31 and 45 years old, but older fraudsters tended to cause larger losses.

Bar chart of losses by age:

Age	Loss
<28	$35,000
26-30	$57,000
31-35	$90,000
35-40	$168,000
41-45	$153,000
46-50	$190,000
51-55	$200,000
56-60	$238,000
>60	$450,000

[1] Association of Certified Fraud Examiners, 2014 Global Fraud Study, *Report to the Nations on Occupational Fraud and Abuse*

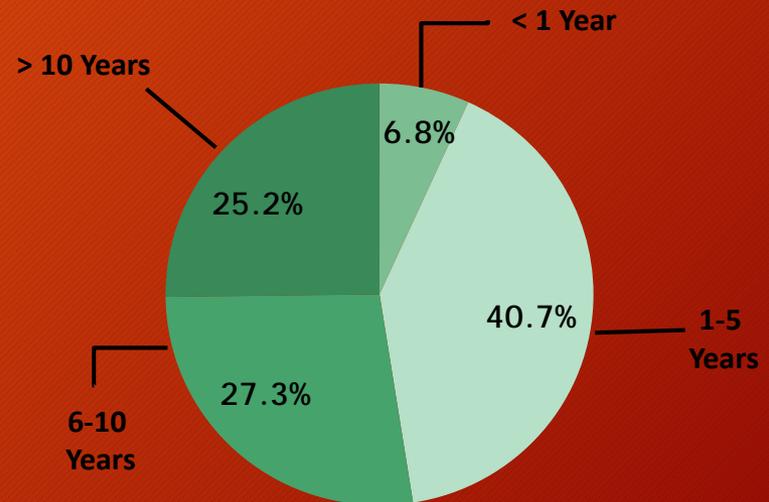# Profile of a Fraudster[1]   (continued)

GENDER

Male fraudsters outnumbered females two to one.

67%
Male

33%
Female

TENURE

7% of perpetrators committed fraud during their first year on the job. **53%** had been with their organizations for more than five years.

- < 1 Year — 6.8%
- 1-5 Years — 40.7%
- 6-10 Years — 27.3%
- > 10 Years — 25.2%

[1] Association of Certified Fraud Examiners, 2014 Global Fraud Study, *Report to the Nations on Occupational Fraud and Abuse*

Federal Fraud Cases

- 5/2005: Mayo Clinic, $6.5M
  - Grant Fraud Investigation, NIH
  - "... resolves allegations that Mayo wrongly charged the government by *including on underspent grants research costs incurred on overspent grants* and internal Mayo cost centers." [emphasis added]

- 2/2003: Northwestern, $5.5M
  - False Claims Act, NIH and other
  - "... Northwestern overstated the percentage of its researchers' work effort that they were able to devote to the grant."

Federal Fraud Cases   (continued)

- 3/2009: Cornell University, $2.6M
  - Federal Civil Fraud, NIH, DOD Research Funds
  - "… principal research investigator… failed to disclose… the full extent of her various active research projects"
  - "… College knew, or should have known, that its employee failed to fully disclose her active research projects in the grant applications submitted to the Government such that her research commitments exceeded 100% of her available time."

- 7/2008: St Louis University, $1M
  - Federal False Claims violation; CDC, NIH, HUD
  - "… scheme to defraud the government by overstating the time certain faculty members were spending on grants… thereby inflating supplemental income received by those faculty members through those grants."

Federal Fraud Cases   (continued)

- 4/2005:   University of Alabama-Birmingham, $3.39M
  - Federal False Claims violation, NIH, Medicare, other
  - (1) "… the school overstated the percentage of work effort that the researchers were able to devote…"
  - (2) "… billed Medicare for clinical research trials that were also billed to the sponsor of research grants."

Federal Fraud Cases   (continued)

- 2/2014: Blackfoot Tribe, $4.6M +
  - Grant Fraud, HHS
  - In-kind contributions falsified, conspirators "began making up facts and documents" and "did so by inflating the figures related to in-kind contributions, assigning values to non-existent and illegitimate 'contributions' and manufacturing fraudulent invoices and records"
  - Procurement Fraud: big and small
    - Travel fraud, exorbitant overtime
    - Collusion with an independent national evaluator for kickbacks (bill the grant for the evaluator services, kickbacks to individuals)
  - $4.6M unsupported claims
  - Personal penalties:
    - $250k conspiracy to defraud the government
    - $250k conspiracy to violate the False Claims Act
    - Sought $1M personal restitution from several defendants
    - Tax Evasion
    - Prison

Federal Fraud Cases   (continued)

- 1/2012: Penn State University, $3M
  - Fraud, Money Laundering; NIH
  - (1) Grant to faculty's company, funds proposed to Penn State for clinical research, instead misappropriated by the PI
  - (2) Separate grant to ARPA-E under ARRA, misrepresented that there was no other funding for research which was in fact funded by NSF
  - Personal penalties:
    - Prison (41 months)
    - Up to $750k fine

Federal Fraud Cases   (continued)

- 4/2014: Morgan State University, $200k
  - Wire Fraud, Mail Fraud, Falsification, Theft; NSF
  - STTR grant, funds converted to personal use by the PI
    - Personal mortgage payments
    - Payments to spouse
    - Students told to return a portion of their stipends to the PI
  - University of Maryland listed as CRI
    - PI misrepresented involvement of University of Maryland
  - Personal penalties:
    - Prison (3 years)
    - $106k restitution

Federal Fraud Cases   (continued)

- 7/2013: Northwestern, $3M
  - False Claims Lawsuit, NIH
  - PI "submitted for reimbursement from the federal grants for professional and consulting services, subcontracts, food, hotels, travel and other expenses that benefitted [the PI], his friends, and family…"
  - In a related news article, it is described that an administrator "spotted suspicious activity on [the PI]'s paperwork, … submitted reimbursement claims 'significantly in excess' of his original budget, and many of his vendors and consultants did not fully explain what they did for him."

Red Flags

- Repeated lack of information, documentation, justifications
- Labor redistributions and cost transfer journal vouchers (e.g., timing, volume)
- Pattern of using one grant at a time
- Spending %'s are out of sync with the grant period
- Weak control environment
- Use of multiple approvals, business offices, administrative staff (i.e., likes confusion, excuses)
- Late agency reporting
- Agency administrators unhappy

Red Flags   (continued)

- Always using last minute approach – crisis mode
- Staff or peer complaints
- Refusing to complete semi-annual certification
- Charges at the end of the grant (e.g., equipment, labor redistributions)
- Identifying cost share is difficult, in kind cost share not well documented
- Consistent overtime
- Demand for original receipts back
- Accidental charges of personal expenses

Resources

- NSF OIG Handbook
  - *Possible Grant Fraud Indicators*

    http://www.nsf.gov/oig/FraudIndicators.pdf

- Financial Fraud Enforcement Task Force
  - *Reducing Grant Fraud Risk: A Framework for Grant Training*

    http://www.recovery.gov/arra/Accountability/Documents/FFETF%20Grant%20Fraud%20Training%20-%203-2-12%20-%20No%20Questions.pdf

Reporting Who's and How's

- Ethics Office (866) 758-2146
  - Whistleblower protection

- Office of University Audits – (217) 333-0900
  - Darla Hill, Director (217) 265-5400

- State of Illinois, Office of the Executive Inspector General (217) 558-5600

- Howard Guenther (Research Integrity)– (217) 333-6771

- Agencies – OIG