



GRANT FRAUD AWARENESS

Unclassified



Who is NCIS?

- U.S. Federal Agents
 - Authorized by SECNAV INST and EO to conduct investigations with DoN nexus
 - Investigate military and civilian subjects
 - Includes UCMJ, US Code, assimilation of of state code
- 90% Civilian
- Civilian Director (SES-6/1811) reports to SECNAV
- Assigned to USMC/Navy operational environments



NCIS agents approach merchant ship following its recovery from hijackers off Somalia coast

Worldwide Presence: Major Field Offices



165 locations worldwide aligned under 16 Field Offices

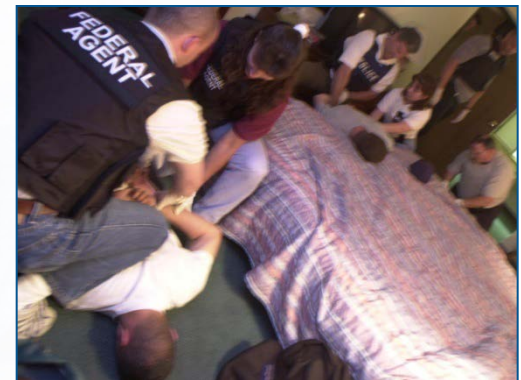
NCIS Focus-General Crimes

SECNAVINST 5430.107 (Charter)

“Within the DON...primary responsibility for investigating actual, suspected, or alleged major criminal offenses ...NCIS shall have exclusive jurisdiction to conduct Criminal Operations...”

Examples:

- Homicide
- Sex offenses
- **Fraud**
- Computer intrusions
- Assault
- Robbery
- Narcotics
- Arson



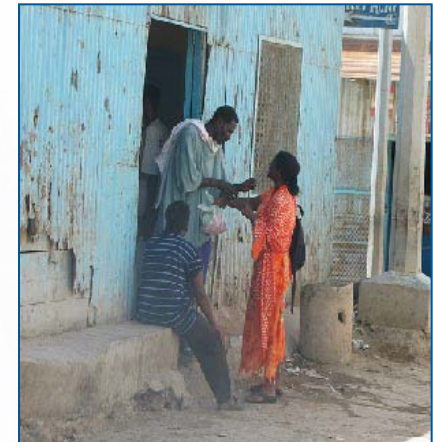
NCIS Focus: CI/CbT

SECNAVINST 5430.107 -

“NCIS shall conduct the full range of counterintelligence activities... to include counterterrorism activities designed to detect, identify and neutralize terrorist planning and activities...”



NCIS conducts joint investigation of M/V Limburg bombing with Yemeni and French investigators



NCIS agent (right) pursues force protection contacts in Horn of Africa



ECONOMIC CRIMES MISSION

- Safeguard the integrity of the Department of Navy (DON) acquisition programs
- Enhance fleet readiness/safety by conducting investigations/initiative operations to reduce fraud in the procurement process



The Cost of Fraud

- DoN Budget FY 1990 = 99.9 Billion
- DoN Budget FY 2008 = 139.1 Billion

- Association of Certified Fraud Examiners estimates U.S. corporations lose 7% annually to fraud
- DoN Procurement Budget FY 2009 = 65.3 Billion
 - 7% annual loss to DoN would be approximately \$ 4.57 Billion

- Significant NCIS Case Categories
 - Product Substitution
 - Emphasis on safety
 - Grant Fraud
 - Cost Mischarging
 - Bribery and Gratuities
 - Conflicts of Interest



General Grant Information

- Each year, the United States Government awards nearly \$450 billion dollars in Federal Assistance
- Agreements, most commonly in the form of grants that help to:
 - Support national infrastructure programs in transportation, homeland security, criminal justice, agriculture, human health, and the environment.
 - Fund scientific research, studies, and analyses.
 - Further the social sciences, art, literature, and promote cultural enrichment.
- Unfortunately, grant dollars are susceptible to fraud, waste, and abuse.



General Grant Information Cont.

- Federal grants are awarded to carry out the goals and objectives identified in the grant.
- These funds are subject to certain regulations, oversight, and audit.
- Grant recipients are stewards of federal funds.
- Grant dollars must be used for their intended purpose.
- Where applicable, grant recipients must account for costs and justify expenditures.

Who Commits Grant Fraud?

- Grant fraud is most often committed by:
- Grant recipients, company officers, business partners, board.
- Members, and managers, bookkeepers, financial staff, and employees.
- Contractors and subcontractors engaged with the recipient.
- Recipient consultants.



Common Grant Fraud Schemes

- Most fraud, waste, and misuse of funds falls into one or more of three general categories:
 - Conflicts of Interest
 - “Lying” or Failing to Properly Support the Use of Funds
 - Theft



Conflict of Interest

- Fiscal decisions must be free of undisclosed personal or organizational conflicts of interest—both in appearance and fact.
- Less than Arms-Length Transactions: purchasing goods or services or hiring an individual from a related party such as a family member or a business associated with an employee of a grantee.



Case Example

- Background: an individual was assigned to purchase equipment using federal grant funds.
- Possible Fraud Indicators: circumvention of the established procurement process; vendor complaints.
- Scheme Identified: individual stole over \$100,000 by directing contracts to bogus companies that he had established.
- Result: 240 month prison sentence.



“Lying” or Failing to Properly Support

- A grant agreement is a legally binding contract.
- Grantees are obligated to use their grant funds as outlined in the agreement and to act with integrity when applying for and reporting their actual use of funds. Grantees are also obligated to properly track the use of funds and maintain adequate supporting documentation.
- Use of funds in a manner different than outlined in the grant agreement.
- Failing to adequately account for, track or support transactions such as personnel costs, contracts, indirect cost rates, matching funds, program income, or other sources of revenue.
- Grantee's must accurately represent their eligibility for funding and cannot provide false or misleading information in their application or subsequent narrative progress or financial status reports.

Case Example

- Background: a grantee received federal grant funding for specific purposes
- Possible Fraud Indicators: an inability to provide sufficient and verifiable supporting documentation concerning the actual use of those funds
- Result: grantee paid the federal government over \$300,000 to settle civil fraud allegations

Theft

- Most common issue in almost all organizations.
- People that embezzle funds can be extremely creative and appear very trustworthy.
- Poor or no internal controls equals virtually inevitable theft. A lack of appropriate separation of duties is one of the most common weaknesses.
- Checks routinely written to employees as “reimbursement” of expenses and the use of ATM / Debit / Gift / Credit Cards must be carefully controlled and require robust oversight.

Case Example

- Background: a non-profit received \$2.7 M. in federal grant funds to assist underprivileged children
- Possible Fraud Indicators: unsuccessful program; lack of internal controls; unexplained income
- Scheme Identified: funds diverted to pay for a wedding reception, building construction, plasma TV, and personal credit card bills; estimated loss of \$450,000
- Result: 36 & 66 month prison sentences; full restitution

Grant Fraud Statutes

- 18 USC 666 – Theft or Bribery concerning programs receiving Federal funds
- 18 USC 1001 – False Statements USC 1001
- 18 USC 287 – False Claims
- 18 USC 1341 – Mail Fraud and Wire Fraud
- 18 USC 371 – Conspiracy
- Each of these violations of law are subject to criminal prosecution, fines, restitution, and civil penalties.



REMEDIES

- Prosecution
 - Criminal (beyond reasonable doubt)
 - Civil (preponderance of evidence)
- Recoveries/Recoupments
 - Fines
 - Forfeitures
- Administrative Remedies
 - Suspension
 - Debarment
 - Termination of contract
 - Offset to contract



Mitigating Risk

- Examine your operations to determine your fraud vulnerabilities.
- Implement specific fraud prevention strategies including educating others about the risks—the more people are aware of the issues, the more they can help prevent problems or detect them as early as possible.
- Maintain a well designed and tested system of internal controls.
- Ensure all financial or other certifications and progress reports are adequately supported with appropriate documentation and evidence.
- Identify any potential conflicts of interest issues and disclose them to the granting agency for specific guidance and advice.
- Follow a fair and transparent procurement process especially when utilizing consultants. Ensure the rate of pay is reasonable and justifiable and that the work product is well-defined and documented.

References:

- Grant Fraud. National Procurement Fraud Task Force. August 2007.
- U.S. Department of Justice Office of the Inspector General. GRANT FRAUD AWARENESS. September 2009



Contact Information

- *NCISHQ Fraud Hotline*
(800) 264 – 6485
- *Multiple Threat Alert Center (MTAC)*
(202) 433-9418
- ncistipline@ncis.navy.mil





John Stamp
Special Agent
(315) 289-6209 (Cell)
john.stamp@navy.mil





Defense Criminal Investigative Service

Mary Catherine Anton
Special Agent

P: (315) 423-5096

F: (315) 423-5099

mary.anton@dodig.mil



QUESTIONS





Prevent. Protect. Reduce