

GRANTS & PROGRAM MANAGEMENT FRAUD: RED FLAGS

Part of the ongoing Bowman & Company LLP blog series, “Governments Can Win the War on Fraud”
By **Maryann Holloway**, CPA, RMA, PSA | Senior Manager, Governmental Services Department

NON-COMPLIANCE WITH FEDERAL, STATE OR LOCAL PROCUREMENT LAWS

Dependent on the source of the grant, specific procurement laws are applicable. For the purposes of this article, we only include federal procurement. Some of the federal laws that apply are Federal Civil Rights, Drug Free Workplace Act of 1988, and the Buy American Act. Management should have policies to demonstrate compliance with these laws. The following red flags are indicators that non-compliance may be occurring.

Irrational Employee Behaviors or Unexplained Employee Absences	Are your employees or the vendor with responsibilities under the grant demonstrating behaviors that indicate the use of drugs or behaviors that could be violating civil rights of others? The National Association of State Controllers (NASC) has developed a controls questionnaire for the Drug Free Workplace Act of 1988. Most state website have checklists to assist in compliance with civil rights laws both at the state and federal level.
Evidence of Foreign-Produced Materials	Read and understand the grant agreement and where applicate the federal compliance supplement. If the grant has provisions that make it subject to the Buy American Act, evidence that foreign-produced materials would violate that law. National Association of State Controllers (NASC) has developed a controls questionnaire for the Buy American Act.

PROBLEMS THAT COULD LEAD TO AN AUDIT FINDING NOT ADDRESSED EARLY ENOUGH

Though your external auditor has a responsibility to the public, they also want your programs to be successful. When your auditor brings matters to your attention or if your system of monitoring reveals exceptions, take action to correct as soon as possible.

Report Audit Findings and Unallowable Costs	If your system of monitoring did not detect a matter of non-compliance, by the time your external auditor reports the finding, the same non-compliance has continued into a new fiscal year. Unallowable costs are expenditures that are violations of law or not in accordance with the provision of the grant and can result in loss of funding and requirements to return funding to the grantor. Implement corrective action as soon possible. In addition, determine why your system of monitoring did not detect the problem and make corrections to the system.
----------------------------------------------------	------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

“Problems That Could Lead to an Audit Finding Not Addressed Early Enough” Continued...

Excess Balances of Federal Cash	Most federal grants are funding on a reimbursable basis in that the grantee expends funds for the programs and files for reimbursement based on those expenditures. Excess balances of federal cash indicate that the grantee filed for reimbursement before incurring the expenses. This makes the filing invalid, and it could be for fraudulent purposes. If you see excess federal cash, investigate.
Expenditures of Federal Funds Outside the Available Period	When receiving a federal grant, one of the compliance requirements often applicable is period of performance. The grantees must expend awards within the dates set by the grantor. Expenditures outside the period of performance are an indication that the grant was not responsibly managed and could result in loss of funding. Management should be aware of the period of performance and the system of monitoring should include procedures to prevent non-compliance.
Program Income Not Identified and/or Reported	Program Income refers to the gross income generated through activities supported by the Federal award during the period of performance (Uniform Guidance 2 CFR 200.80). The grantor will usually specify how grantees may use program income in the grant agreement; however generally the grantees must use the funds to further project directives in accordance with the terms and conditions of the award. There must be procedures to account for program income and grantee must report program income. A lack of these procedures could result in the misappropriation of funds. The system of monitoring should include procedures to ensure program income compliance.

RECIPIENTS AND SUB-RECIPIENTS DO NOT UNDERSTAND THEIR REQUIREMENTS AND RESPONSIBILITIES, OR SUB-RECIPIENTS ARE INEFFECTIVE IN PROGRAM IMPLEMENTATION

The red flag for this is often **audit findings that go unaddressed**. In addition, a **new sub-recipient** may be a red flag automatically. Is it fraud or a lack of understanding. Regardless of the reason, persons with responsibilities under the grant need training to understand the requirements and their responsibilities. For employees, management should assess the training needs of its staff. The training of new sub-recipients may also be the responsibility of the grantee. The grantee should ascertain the qualification of vendors in the contracting process. Management must establish a process to check all bidders, vendors, and contractors for state, local and federal debarment lists or exclusion from federal awards. Management should determine that vendors are properly licensed, when applicable. If the grantee has prior experience with a vendor or if searching online can provide information, prior complaints can be an indicator of problems with the vendor. At the end of this article, you will find links to best practices resources for these red flags.

Reporting Issues

Most grants have reporting requirements and management should be aware of the following red flags which may be an indication of material non-compliance or of fraud.

Inaccurate Reporting and Related Audit Findings	Reporting can include financial and non-financial information. Just because all the numbers agree with the financial accounting system, does not mean that the data in the report is accurate. The system of monitoring should include procedures that someone other than the preparer reviews the reports for accuracy before the grantee submits the reports.
Federal Reports Filed Late, or Failure to File Reports and Related Audit Findings	The reporting requirements often have deadlines to meet. Filing reports late or not filing a report can indicate that the grant was not responsibly managed. If fraud is occurring, the failure to report may be an attempt to delay discovery. The system of monitoring should include procedures that determine the timely filing of reports.
No Monitoring of Federal Requirements for Changes	The compliance requirements for grants often change. There could be reporting issues related to not being aware or ignoring changes. Management should read each grant agreement carefully for changes. The compliance supplement is issued annually. Management should review it for changes.

APPLYING BEST PRACTICES

These best practices would ensure that the government has established a robust system of internal control in line with the Committee of Sponsoring Organization (COSO) framework. Our next article in this series will present the risks, red flags, and best practices against fraud in information technology and security.



RECOMMENDED RESOURCES

- **“AGA Risk Assessment Monitoring Tool”** ([Link](#)) - This risk assessment tool provides pass-through entities with a method for assessing subrecipient risk across federal granting and monitoring authorities.
- **“AGA’s Subrecipient Monitoring and Self-Assessment Tool”** ([Link](#)) - A guide to provide a consistent approach for pass-through entities to monitor a grant subrecipient’s compliance with federal administrative requirements.
- **“Civil Rights Compliance Checklist Issued by the US Department of Justice”** ([Link](#))
- **“Guide to Improving Program Performance and Accountability Through Cooperative Audit Resolution and Oversight (CAROI)”** ([Link](#)) - Provides government officials with a concrete tool to improve programs and to deal with fiscal and programmatic challenges.
- **“List of Individuals/Entities Excluded (LEIE) from Federal Health Care Programs”** ([Link](#))
- **“National Association of State Controllers (NACS) Controls Questionnaire for Buy American Act”** ([Link](#))
- **“National Association of State Controllers (NACS) Controls Questionnaires for a Drug Free Workplace”** ([Link](#))
- **“Office of the State Controller, State of Maine Self-Assessment Tools”** ([Link](#)) - These tools include checklists for documenting the governments control environment and risk assessment including those for grant compliance.
- **“System of Award Management (SAM)”** ([Link](#)) - The source of information on grant programs, including the database to search for parties excluded from receiving federal contracts and federal financial assistance.