

# What is Fraud? Enhancing Program Integrity

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**Presented by the Office of Community Services  
Division of Energy Assistance  
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Tribal Session**



# What is Fraud?

## Enhancing Program Integrity

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# Learning Objectives

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- **Grantees' Responsibility**
- **Definition of Grant Fraud**
- **Examples of Fraud**
- **Methods to Prevent and Mitigate Fraud in LIHEAP**
- **Federal LIHEAP Regulations, Statutes and Laws**
- **Program Integrity Plan**



# The Fraud Triangle



Source: Association of Government Accountants

<https://www.agacgfm.org/Intergov/Fraud-Prevention/Fraud-Awareness-Mitigation/Fraud-Triangle.aspx>



# What is Grant Fraud?

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**The intentional misuse of grant funds in a manner that is not consistent with the goals and objectives identified in the grant.**

For Office of Inspector General (OIG) auditors and investigators, grant fraud encompasses a wide range of improper activities often summarized in three general categories:<sup>1</sup>

<sup>1</sup>Reducing Grant Fraud Risk: A Framework for Grant Training  
Financial Fraud Enforcement Task Force  
Recovery Act, Procurement, and Grant Fraud Working Group, March 2012



# OIG Categories of Grant Fraud<sup>1</sup>

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## CONFLICTS OF INTEREST

- ❖ Hiring a relative as an employee or as a vendor to supply grant-funded products.
- ❖ Purchasing goods or services from a business in which the grant recipient has an ownership interest.

## THEFT

- ❖ Fictitious transactions
- ❖ Misusing credit card designated for grant-funded purchases.

## MATERIAL FALSE STATEMENTS

- ❖ Falsifying certifications
- ❖ Failing to maintain adequate supporting documentation about the use of funds.
- ❖ Misrepresenting elements of costs.
- ❖ Charging unallowable costs.

<sup>1</sup>Reducing Grant Fraud Risk: A Framework for Grant Training  
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# Grant Fraud Red Flags

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- ❖ More than one explanation for an expense.
- ❖ Even dollar claims.
- ❖ Unusual spending near the end of the grant period – often done to avoid losing expiring funds.
- ❖ Inability/refusal to provide supporting documentation in a reasonable amount of time.
- ❖ Plagiarized or otherwise false or misleading reports.
- ❖ Unresponsive recipients.



# Mitigating Fraud

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- ❖ Maintain a system of effective internal controls.
- ❖ Ensure all certifications, financial reports and progress reports are adequately supported with appropriate documentation and evidence.
- ❖ Educate staff about risks.
- ❖ Identify potential conflicts of interest issues.
- ❖ Share your concerns related to fraud, waste, and abuse of government funds with the OIG.





# Suspect Fraud?

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**Refer suspected cases of fraud to the  
HHS OIG Hotline**

Telephone:

**1-800-HHS-TIPS (1-800-447-8477)**

Online:

**[oig.hhs.gov/report-fraud](https://oig.hhs.gov/report-fraud)**



# Fraud Prevention

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## GAO Report:

**Deceased individuals.** The identities of over 11,000 deceased individuals were used as applicants or household members for LIHEAP benefits (\$3.9 million in benefits).

**Incarcerated individuals.** For the four states that provided reliable incarceration data, 725 instances where the identities of individuals incarcerated in state prisons were used as applicants or household members (\$370,000 in benefits).

**Federal employees exceeding income thresholds.** Matching LIHEAP data with federal civilian payroll records, we identified about 1,100 federal employees whose federal salary exceeded the maximum income threshold at the time of their application (\$671,000 in benefits).



# Fraud Prevention

## GAO Report:

### Examples of Fraudulent or Improper Activity in LIHEAP

Nature of activity	State	Case details
Deceased individuals	IL	Illinois provided \$540 in energy assistance to an applicant who fraudulently used the identities of two deceased family members to qualify for LIHEAP.
Federal employee salary over maximum income threshold	IL	Illinois provided \$840 in energy assistance to a U.S. Postal Service employee who fraudulently reported zero income to qualify for LIHEAP. Despite earning about \$80,000 per year, the employee stated that she saw "long lines" of individuals applying for LIHEAP benefits and wanted the "free money."
Residential facilities	NJ	New Jersey provided \$3,200 in energy assistance to a nursing home facility whose director claimed to represent eight patients residing in the facility. These patients had their nursing home care paid by Medicaid.
GAO's proactive testing	WV and MD	Posing as low-income residents, landlords, and an energy company, GAO used bogus addresses and fabricated energy bills, pay stubs, and other documents to apply for energy assistance. All fraudulent claims were processed and the energy assistance payments were issued to our bogus landlords and company.

Source: GAO analysis of state, public, and other records.

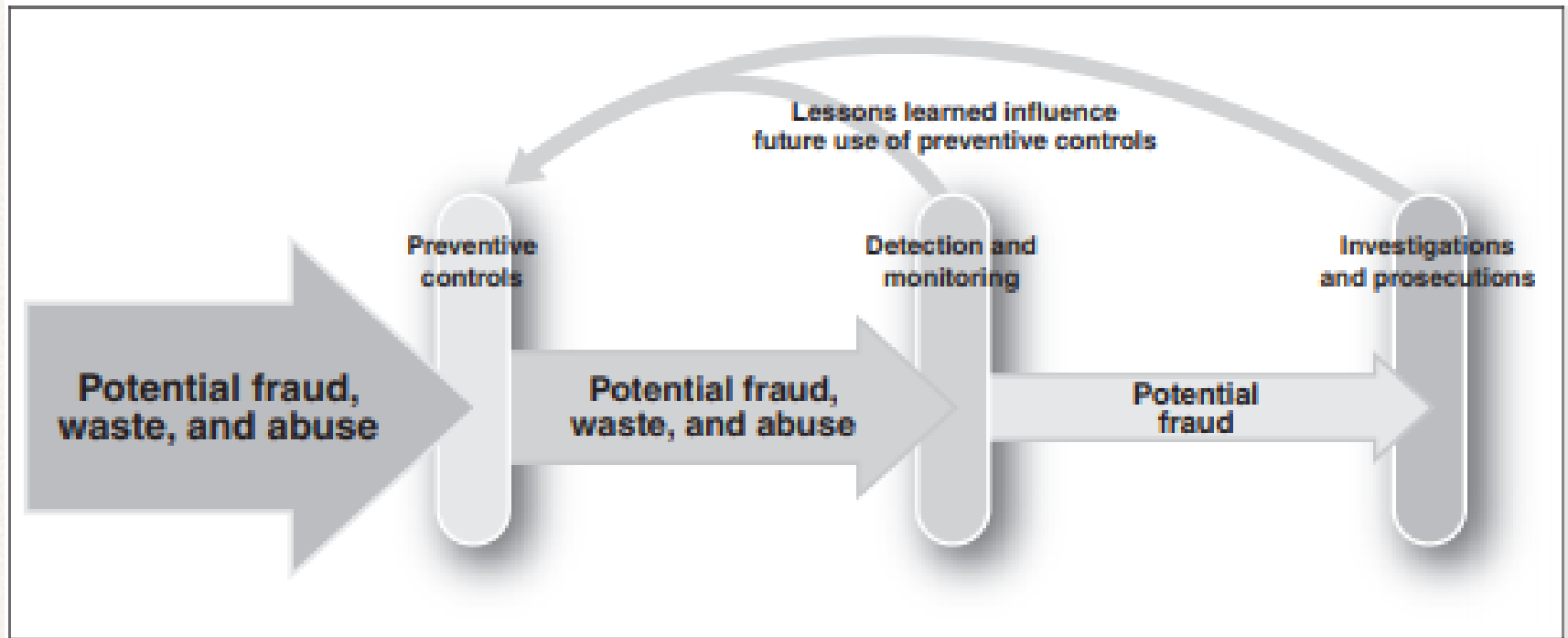


# Fraud Prevention

GAO Report:

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**Figure 2: GAO's Fraud Prevention Model**



Source: GAO.



# Fraud Prevention

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## Preventive Controls

Validate applicant and household member information with SSA.

Check death record files.

Check for incarcerated individuals.

Verify reported income using outside source (e.g., New Hire Database).

Check for long-term care patients.

Check data to prevent applicants and household members from receiving duplicate benefits.



# Fraud Prevention

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## Detection and Monitoring

Fraud prevention program

Data mining for fraudulent and suspicious applicants

Evaluate vendors and employees to provide reasonable assurance that they continue to meet program requirements and follow program protocols.

Match beneficiary files to third-party databases to confirm eligibility

Ensure applicants are not acting as own vendor.



# Fraud Prevention

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## Detection and Monitoring

OIG recommended that ACF revise its policies and procedures to improve the information that it has to oversee the Tribal grantees. Specifically, OIG recommended that ACF:

- enhance its policies and procedures to ensure that it can determine whether Tribal grantees:
  - ensure that obligated grant funds are used to provide energy assistance to eligible beneficiaries (rather than being held as credit balances at energy suppliers) and that these funds can be traced to the year of obligation,
  - maintain adequate supporting documentation for LIHEAP obligations and track and verify that prepayments made to energy suppliers are then used to provide services to eligible households,
  - ensure that energy suppliers return to the Tribes all unused grant funds prior to the end of each FY, thereby enabling the Tribes to re-obligate those funds for allowable LIHEAP purposes within the grant period;
- review the FFRs and Carryover Reports to verify that Tribal grantees report unobligated grant funds based on accurate financial information and ensure those amounts are refunded to the Federal Government;



# Fraud Prevention

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## Detection and Monitoring

OIG recommendations to ACF (cont'd):

- educate Tribal grantees on ways to use grant funds to provide the maximum available benefits to eligible households and for other purposes of the program, such as crisis situations, residential weatherization, and energy-related home repairs;
- review each Tribal grantee's policies and procedures to ensure that the grantee formalizes its definition of income in ways that conform to Federal requirements and guidance and uses this definition when determining eligibility for LIHEAP assistance;
- review all FFRs, Carryover Reports, and Household Reports to ensure that the reports are complete, are submitted in a timely manner, and are properly supported; and
- incorporate the findings from previous monitoring reviews into the monitoring prioritization assessment tool to help evaluate the optimal composition of State, Territory, and Tribal grantees selected for annual on-site reviews.





# Fraud Prevention

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## Investigations and Prosecutions

Schemes identified through investigations and prosecution can be used to improve the fraud prevention program.

Pursuing recipients who commit fraud can be costly and time consuming.

The amounts of energy assistance benefits to individuals are relatively small, which may deter prosecution of the cases by federal or state prosecutors.

Because of this, it is important to have strong controls to prevent the occurrence of fraud.



# Fraud Prevention

## Investigations and Prosecutions

### Example: Fraud at the client level

- State agency gave out LIHEAP benefits to individuals without verifying whether their incomes made them eligible for payments.
- State auditor compared of the state's wage-reporting system and energy assistance database — revealed that 6,868 of the more than 100,000 recipients may have underreported their income.
- Those households received \$3 million in benefits.
- Comptroller urged the State agency to utilize existing access to state databases and obtain access to other agencies, to conduct income verification and vital statistic reviews.



# Fraud Prevention

## Investigations and Prosecutions

### Example: Fraud at the State agency level

- A State Welfare Director and five others were charged with embezzling millions in Federal grant funds designated for needy families.
- Internal controls were compromised for multiple Federal programs, including LIHEAP.
- The Director would circumvent controls of the monitoring process for certain subrecipients.
- This direct involvement of the Director and the disregard of controls resulted in a lack of integrity in the monitoring process.



# Fraud Prevention

## Investigations and Prosecutions

### Example: Fraud at the State agency level (cont'd)

- Monitoring visits were called short and monitors were recalled and reassigned if issues were found during monitor visits.
- Monitoring reports could not be relied upon during test work as auditors could not determine what, if any, appropriate monitoring actually occurred for subgrants.
- Staff did not report to the State Auditor that monitors were being recalled and controls were being circumvented by the Director.
- Test work determined widespread fraud, waste, and abuse at two of the largest subrecipients of Federal funds.



# Fraud Prevention

## Internal Controls in a Remote Work Environment

As a reminder, performing a risk assessment should be revisited periodically and more often as the circumstances warrant:

- Clearly define and document the adjusted process and controls
- Identify changes to roles and responsibilities and maintain segregation of duties
- Ensure proper management approvals are received
- Communicate the modified process and controls to all relevant parties
- Maintain accurate documentation to evidence the controls performance, even though it may be different than evidence maintained in the past

From “Risk and controls in a crisis: Frequently Asked Questions” © 2020 Deloitte LLP



# Federal LIHEAP Regulations

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***The federal LIHEAP regulations at 45 C.F.R § 96.30 require that:***

Except where otherwise required by Federal law or regulation, a State/Tribe/Territory shall obligate and expend block grant funds in accordance with the laws and procedures applicable to the obligation and expenditure of its own funds.

Fiscal control and accounting procedures must be sufficient to (a) permit preparation of reports required by the statute authorizing the block grant and (b) permit the tracing of funds to a level of expenditure adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of the statute authorizing the block grant.



# Obligation and Expenditures

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## Part 1.

What is your tribal definition of obligation as it relates to your own tribal funds?

What is your tribal definition of expenditure as it relates to your own tribal funds?

## NOTE:

Grantees must obligate at least 90% of funds in the year the funds are received.

Grantees can carryover a maximum of 10% to be obligated in the 2<sup>nd</sup> year of the obligation period.

*Summary: Tribal definition of obligation & expenditure = LIHEAP definition of obligation & expenditure.*



# Tracing of Funds

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## Part 2.

Permit the tracing of funds to a level of expenditure adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of the statute authorizing the block grant.





# Obligation Example

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- In FY2020 total client benefits \$20,000
- In FY2021 Vendor refund \$ 4,000
- \$4,000 of unobligated FY2020 funds
- Will the \$4,000 refund exceed 10% carryover limit from FY2020?
- If not, add \$4,000 to FY2020 unobligated balance in the Carryover Report and re-obligate in FY2021
- If yes, add unobligated balance up to maximum, any amount over the maximum must be reported as reallocation on the Carryover Report and sent back to HHS.



# United States Code (U.S.C)

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***31 U.S.C. § 1301(a) requires that:***

“Appropriations shall be applied only to the objects for which the appropriations were made except as otherwise provided by law.”



# LIHEAP Statute

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***Section 2605(b)(10) of the LIHEAP statute [42 U.S.C. § 8624(b)(10)] – Assurance 10— requires that grantees:***

[P]rovide that such fiscal control and fund accounting procedures will be established as may be necessary to assure the proper disbursement and accounting for Federal funds paid to the State under this title, including procedures for monitoring the assistance provided under this title, and provide that the State will comply with the provisions of chapter 75 of title 31, United States Code (commonly known as the "Single Audit Act").



# Federal LIHEAP Regulations

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*The federal block grant regulations at 45 C.F.R. § 96.84(c) require:*

(c) Prevention of waste, fraud, and abuse. Grantees must establish appropriate systems and procedures to prevent, detect, and correct waste, fraud, and abuse in activities funded under the low-income home energy assistance program. The systems and procedures are to address possible waste, fraud, and abuse by clients, vendors, and administering agencies.



# Program Integrity

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A sound program integrity plan should address the following areas:

- **Prevention**
- **Detection**
- **Correction**
- **Reporting**



# Program Integrity

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## Areas of Focus for Program Integrity

- **Eligibility**
- **Fiscal Management**
- **Oversight and Monitoring**



# Eligibility

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**Goal: Ensure LIHEAP Benefits are provided only to eligible households**

The federal LIHEAP office cannot require Social Security Numbers (SSN). However, to enhance program integrity in LIHEAP, HHS strongly encourages grantees to require that LIHEAP applicants provide SSNs in order to receive a LIHEAP benefit. We urge you to follow your tribal rules.

## LIHEAP-IM-2010-06

<https://www.acf.hhs.gov/ocs/policy-guidance/liheap-im-2010-6-states-are-encouraged-require-social-security-numbers>



# Eligibility

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## Suggestions for improvement:

### Documentation

- Require a copy of the SSN or tribal ID card for the applicant and other household members.
- Require photo identification card

### Verifying information through third-party databases

- Tribal Database
- Secure client database for tribal LIHEAP
- Share Data
- Verifying Data





# Eligibility

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## Suggestions for improvement:

### Verifying Identity and Address

- Tribal Enrollment
- Proof of Address

### Verifying Income

- Available database to LIHEA for public assistance programs,
- Contacts with tribal programs



# Fiscal Management

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**Goal: Ensure LIHEAP Funds are properly spent and accounted for**

**Suggestions for improvement:**

## **Benefits**

- Vendor benefit payments

## **Regulated Vendors**

- Contracts or agreements with regulated vendors

## **Unregulated Vendors**

- Develop contracts or agreements with unregulated vendors (such as oil, propane, wood)



# Oversight and Monitoring

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**Goal: Ensure Compliance with Federal and Tribal LIHEAP policies, procedures, and law (including any applicable state laws).**

**Suggestions for improvement:**

## **Compliance**

- Check off list
- Review Process

## **Training**

- Program Information and Payment Matrices
- Check-off lists for intake personnel



# Oversight and Monitoring

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## Suggestions for improvement:

### **Fraud Prevention and outreach/awareness**

- Addressing False Information
- Clear language in application for benefits provided
- How to Report Fraud

### **Confidentiality**

- Confidentiality agreement for employees
- Protecting Information with passwords
- Protect all Personally Identifiable Information (PII)



# Wrap-Up

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- **Definition of grant fraud**
- **Methods to prevent and mitigate fraud**
- **LIHEAP Regulations**
- **Program Integrity Plan**



# Contact Information

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Kristanya Knutsen, Audit Resolution Manager, Office of Grants Management, [Kristanya.Knutsen@acf.hhs.gov](mailto:Kristanya.Knutsen@acf.hhs.gov), (646) 905-8139.

HHS OIG Hotline

Telephone: 1-800-HHS-TIPS (1-800-447-8477)

Online: [oig.hhs.gov/report-fraud](http://oig.hhs.gov/report-fraud)



# Questions from Chat Box

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