

Preventing Fraud, Waste, Abuse, and Mismanagement

Guide Sheet

Grant Financial Management Requirement

The U.S. Department of Justice (DOJ) awards grants to fund justice programs that benefit communities in the U.S. and U.S. territories. DOJ expects the funds to be used only for intended purposes and within the established guidelines. As an OJP grantee, you are responsible for providing adequate safeguards to prevent fraud, waste, abuse, and mismanagement of federal funds. Proper management of award funds prevents misuse of funds.

Important Information to Know

What are common types of grant fraud?

There are three common types of grant fraud identified by DOJ:

- ▶ Conflict of interest—when an employee or volunteer has a personal or business interest that conflicts with their professional obligations or responsibilities to the organization.
- ▶ Failure to properly support the use of award funds.
 - ◆ Deliberate re-budgeting of funds in a manner different from the purpose outlined in the award agreement.
 - ◆ Failure to appropriately track and document transactions such as personnel costs, contracts, indirect cost rates, matching funds, program income, or other sources of revenue.
- ▶ Theft—the embezzlement of the funds that are awarded to the organization.

Additional example of misuse of grant funds include:

- ▶ Fraud—an attempt to obtain something valuable through intentional misinterpretation.
- ▶ Waste—misuse of funds or resources through excessive or nonessential expenditures.

- ▶ Abuse—occurs when there is an intentional and unacceptable use of grant funds or misuse of one's position.
- ▶ Mismanagement—failure to appropriately manage budgets, expenditures, or documentation for grant funds.

What are examples of fraud, waste, abuse, and mismanagement?

Below are five case examples of fraud, waste, abuse, and mismanagement.

Case example 1: Fraudulent activities on a grant funded project

Background	Possible Fraud Indicator	Scheme Identified	Result
An individual was tasked with purchasing equipment using a federal award.	Circumvention of the established procurement process and vendor complaints.	Individual stole over \$100,000 by directing contracts to bogus companies that he established.	A 240-month prison sentence.

Case example 2: Theft

Background	Possible Fraud Indicator	Scheme Identified	Result
A nonprofit received \$2.7 million in federal award funds to assist underprivileged children.	Unsuccessful program, lack of internal control, and unexplained income.	Funds were diverted to pay for a wedding reception, building construction, plasma TV, and personal credit card bill, with an estimated total loss of \$450,000.	A 36- and 66-month prison sentence and full restitution.

Case example 3: Mismanagement of grant funds due to failure to properly support use of funds

Background	Possible Mismanagement Indicator	Result
A recipient received funds for a school safety summer program for middle and high school students.	Contract for a 12-month lease; spoiled food due to excessive purchase of perishable items; and insufficient documentation to support a substantial number of purchases.	Recipient paid the federal government over \$300,000 to settle civil fraud allegations.

Case example 4: Waste

Background	Possible Waste Indicator	Result
A program manager purchased laptop and printer sets at LMX Tech at a price that was \$650 more than for the same model at Computer Co.	Funds should not be used to purchase overpriced equipment due to vendor preferences.	Recipient repaid funds as the agency deemed the \$18,500 excessive for the grant employees.

Case example 5: Abuse

Background	Possible Abuse Indicator	Result
Tablets were purchased for program staff to have access while monitoring afterschool programs.	Monitoring has not occurred during the life of the project, while tablets are filled with game applications, personal documents, videos, and music.	Recipient repaid the federal government for the purchase of the 15 tablets.

How This Applies to Your Grant

Penalties for fraud, waste, abuse, and mismanagement

Per the [DOJ Grants Financial Guide](#), if a grant recipient or subrecipient is found guilty of grant fraud, waste, abuse, and mismanagement, the consequences could be any or all of the following:

- ▶ The recipient or subrecipient is banned from receiving future federal funding.
- ▶ The recipient or subrecipient is responsible for the administrative recoveries of the funds.
- ▶ The recipient or subrecipient has a civil lawsuit or criminal prosecution brought against them.

Ways to reduce the risk of fraud, waste, abuse, and mismanagement

Recipients or subrecipients of award funds should develop and implement preventative measures and processes to decrease the risk of fraud, waste, abuse, and mismanagement. See below for examples of ways to reduce fraud, waste, abuse, and mismanagement.

- ▶ Examine existing operations and internal controls to identify if they are vulnerable to fraud. Examples of vulnerabilities include:
 - ◆ Lack of separation of duties.
 - ◆ Unclear authorization for transactions.
 - ◆ Outdated or ineffective accounting systems.
 - ◆ Improperly collected and stored documentation.
 - ◆ Incomplete, unclear, or not implemented conflict of interest policies.
- ▶ Implement fraud prevention measures and have regular trainings to educate staff and volunteers on risks.
- ▶ Review and test internal control systems regularly for vulnerabilities and areas of improvement.
- ▶ Verify that all financial and progress reports are sufficiently supported with the required documentation.
- ▶ Develop and implement procurement processes that are reasonable, fair, and transparent.
- ▶ Conduct monthly bank reconciliations² to identify errors or irregularities in bank statements and detect fraud.

Reporting fraud, waste, abuse, and mismanagement

DOJ requires recipients and subrecipients of grant awards to notify the awarding agency, and the federal cognizant audit agency, if they identify illegal activities, irregularities, or potential fraudulent actions. Examples of activities that should be reported are conflict of interest situations, records that have been falsified, fabricated reports, or other misuse of assets and funds.

If a recipient and subrecipient has an issue or a question regarding their grant, they should contact their grant program manager and/or the contact listed in the solicitation. If additional help is needed, contact the Office of the Chief Financial Officer Customer Service Center at 1-800-458-0786 (TTY: 202-616-3867) or ask.ocfo@usdoj.gov.

Resources

Government Accounting Office. (2019). Fraud, waste, abuse, and mismanagement: Know how to recognize and report them. <https://www.gao.gov/assets/680/676651.pdf>

Office of Justice Programs. (2020). Grants 101: Definitions. <https://www.ojp.gov/funding/grants101/definitions>

U.S. Department of Justice. (2017). DOJ Grants Financial Guide: Grant Fraud, Waste, and Abuse. <https://www.ojp.gov/funding/financialguidedoj/iii-postaward-requirements#ytg3wm>

OJP TFSC offers resources on a variety of grants financial management topics, which can be found on our website at <https://www.ojp.gov/tfsc/resources>

About the OJP Territories Financial Support Center

The Office of Justice Programs Territories Financial Support Center (OJP TFSC) offers free resources, training, and technical assistance for grantees in the U.S. territories. OJP TFSC services focus on building financial management capacity and can be accessed by emailing OJPTFSC@usdoj.gov via our Virtual Support Center.



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