EPA

UNITED STATES ENVIRONMENTAL PROTECTION AGENCY

Office of Inspector General

WHEN GOOD MONEY GOES BAD

True Stories of Grant Fraud at EPA

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"Catalyst for Improving the Environment"

WHO WE ARE

The Office of Inspector General is an independent office within EPA that helps the Agency protect the environment in a more efficient and cost effective manner. We consist of auditors, program analysts, investigators, and others with extensive expertise.

WHAT WE DO

We perform audits, evaluations, and investigations of EPA and its contractors, grantees, and recipients of other Federal funds to promote economy and efficiency, and to prevent and detect fraud, waste, and abuse. We also maintain the OIG Hotline.

WHY WE DO IT

We strive to serve as a catalyst for improving the environment. By helping the Agency operate more economically, effectively, and efficiently, we contribute to improved environmental quality and human health. We strive to provide solutions to problems that ultimately result in making America a cleaner and healthier place.

OUR MISSION

Add value by promoting economy, efficiency, and effectiveness within EPA and the delivery of environmental programs. Inspire public confidence by preventing and detecting fraud, waste, and abuse in Agency operations and protecting the integrity of EPA programs.

"There is no kind of dishonesty into which otherwise good people more easily and frequently fall than that of defrauding the government."

Benjamin Franklin

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Introduction

In an effort to provide you with tools to identify areas that may be of concern or worth looking into, this booklet was designed to provide an overview of general fraud indicators as well as highlight some specific indicators related to grant fraud. To put a face to what is often seen as a victimless crime and to highlight the impact of fraud, included are some real-world examples of grant fraud investigations conducted by the U.S. Environmental Protection Agency, Office of Inspector General, Office of Investigations.

What Can I Do to Avoid Trouble ?

- Report any irregularities early.
- Correct any audit findings promptly.
- Have a system of checks and balances.
- Create and follow established procedures.

If you are a federal employee, you are duty bound to report Fraud, Waste, Abuse, and Corruption under the Code of Federal Regulations (CFR).

"Employees Shall Disclose Waste, Fraud, Abuse, and Corruption to Appropriate Authorities." 5 CFR 2635.101(b)(11)

We are here to assist you. We want you to succeed.

General Fraud Indicators

General fraud indictors are applicable to many areas and not exclusively tied to grants. The list presented below is not meant to be all-inclusive and should not limit the consideration of other factors. Remember—if it doesn't pass the "smell" test, something may be amiss.

- ❑ Missing, weak, or inadequate internal controls
- ❑ Management override of key internal controls
- ❑ Lack of written policies and procedures
- ❑ Overly complex organizational structure
- ❑ High turnover rate
- ❑ Reassignment of personnel
- ❑ Termination of key personnel
- ❑ "Missing" files, reports, data, and invoices (both electronic and paper)
- ❑ Photocopies of documents where it is difficult to detect alterations
- ❑ Missing approval signatures
- ❑ Lack of separation of duties
- ❑ Discrepancies in handwriting
- ❑ Delays in production of requested documentation

False Statements and False Claims

Definition:

Any untrue statement or claim, knowingly made with the intent to mislead or defraud.

Indicators:

- Discrepancies between reported facts and supporting documentation.
- Inability or refusal to provide supporting documentation.

FRAUD CASE STUDIES

Former EPA Intern Pleads Guilty to Submitting False Timesheets

An individual from Arlington, Texas, pled guilty in U.S. District Court for the District of Massachusetts to 10 counts of making false statements.

The individual, an employee with an EPA grant recipient, was placed in an internship position with EPA; however, EPA contacted the employer within 2 weeks and requested the individual be replaced with another intern. After she left her internship at EPA, the individual submitted forged timesheets to the grantee, who subsequently continued to pay her a salary for approximately 1 year after her internship had been terminated. Her salary was paid from funds provided to the grantee by EPA.

Professor Settles Civil Complaint

A professor of environmental medicine at a New York medical school entered into a civil settlement in U.S. District Court, Southern District of New York, to settle a false claims case. In the settlement, the professor agreed to pay the United States $17,500.

For over 2 years, the professor submitted numerous fraudulent reimbursement requests to the school. These reimbursement requests were paid from moneys provided by federal grants funded by the EPA. The professor used the illegally obtained funds to support his personal hobby of stamp collecting.

University Agrees to Pay $2.5 Million to Settle False Claims Allegations

A university in New England agreed to pay $2.5 million in damages and penalties to settle civil allegations that the university submitted false claims on approximately 500 federal grants awarded to them.

The federal government awarded the grants for work to be performed by two of the university's specialized service facilities. The grant awards were made by numerous federal agencies including the Department of Defense, the Environmental Protection Agency, the National Science Foundation, and the National Aeronautics and Space Administration.

The government specifically alleged that the university submitted grant applications containing incorrect or overstated information about anticipated expenses. The university charged certain expenses that were not properly chargeable and submitted invoices to the government for three types of grant expenses. First, the government alleged that the university did not utilize a proper basis for setting and regularly updating its billing rate structure, as required by federal law. The university's failure to revise and appropriately set its billing rate structure resulted in numerous false claims being submitted for payment to the United States. Second, the government alleged that the university failed to follow federal law for calculating how extra compensation should be paid to university faculty members for additional work on grant supported research activity and that improper excess charges were therefore charged to the grants. Finally, the government alleged that certain of the grants required cost sharing or matching by the university and that the university failed to provide the requisite cost sharing or matching.

The university has also entered into a compliance agreement with the federal government that requires the university to make significant changes in its grant administration program. In addition, the university must certify that it has in place an adequate compliance program for preventing fraud and false billings to federal grants.

This investigation was conducted jointly with the Defense Criminal Investigative Service, the Defense Contract Audit Agency, and the U. S. Army Criminal Investigation Command.

Company President Found Guilty of Defrauding Investors and U.S. Government

A federal jury found a Colorado businessman guilty of mail fraud, wire fraud, false statements, and failure to file tax return charges. These charges were related to defrauding investors and the U.S. Government concerning his proposed alternative fuel additive. The businessman, of Parker, Colorado, is the founder, President, and a member of the Board of Directors for his commercial business.

Through this commercial business, the businessman was raising money for and purportedly developing an alternative fuel additive called "vapor phase combustion (VPC)." He solicited money from investors, making a variety of claims regarding the proven efficacy of VPC. As part of his scheme, the businessman prepared and sent periodic newsletters to past and potential investors in which he falsely represented the results of scientific testing regarding VPC, and falsely represented that major oil companies were interested in making substantial investments in VPC. Over 7 years, more than 43 people invested approximately $559,200 in his business, based on the fraudulent pretenses, representations, and promises made. Instead he used this money to pay for personal expenses and some business expenses.

Additionally the businessman successfully lobbied members of Congress and obtained a $3.6-million earmark grant for further testing of VPC. He created a non-profit entity to obtain and use the money, then submitted a grant proposal and other documents to EPA, which he knew contained material falsities, including the false scientific test results for VPC. As a result of the fraud, the non-profit entity actually received approximately $2 million of the earmarked grant money from EPA.

Subsequent to the businessman's conviction, the non-profit entity's treasurer pled guilty to three counts of knowingly failing to file tax returns for the commercial business. He was involved with the company, acting at various times as its registered agent, bookkeeper, chief of staff, corporate secretary, and treasurer. He was sentenced to 12 months probation and ordered to pay a $3,450 fine.

This case was conducted with the Internal Revenue Service Criminal Investigation Division and the U.S. Postal Inspection Service.

Bribery and Kickback Schemes

Definition:

Giving or receiving a thing of value for the sole purpose of influencing an official act or a business decision.

Indicators:

- An overly friendly relationship between government employees and recipients/vendors and/or among recipients/vendors who may otherwise be considered competitors.
- Excessive, new-found wealth may also be a clue that a bribe or kickback has been accepted.
- Grants or contracting employee has an undisclosed business.

FRAUD CASE STUDIES

Public Employee and Others Sentenced in Kickback Case

A public employee, his company, and two businessmen were sentenced in federal court in California. The public employee was sentenced to 9 months home detention, 24 months of probation, 500 hours of community service, and fined $40,000. His company was sentenced to 36 months probation and ordered to pay a $150,000 fine. The two businessmen collectively were sentenced to 36 months of probation, 500 hours of community service, and fined $15,000. These sentences followed guilty pleas to various charges including mail fraud and theft from programs receiving federal funds.

For approximately 9 years, the employee was employed by a public entity that was responsible for a number of public works projects including an EPA financed pipeline. As an employee, he was precluded from obtaining public contracts. He devised a scheme whereby he would be able to secretly obtain surveying contracts with the pubic entity despite his employment with that government agency. He used his position to assist the other businessman in obtaining surveying jobs with the public entity, first by recommending to his supervisors that work be granted and later personally granting them work. In exchange for the work, the businessman paid an amount of the money earned to the public employee's company. The public employee also entered into an agreement with the other businessman whereby his company would be awarded contracts by the public entity.

The public employee concealed the income he received on government projects from the government and the EPA by filing false Statements of Economic Interest with the County Clerk in spite of his duty as a government employee to provide full disclosure. His company received over $1,100,000 in gross receipts from the government.

This case was worked jointly with the Federal Bureau of Investigation and the San Bernardino Sheriff's Office.

Embezzlement

Definition:

Fraudulent taking of personal property or money with which one has been entrusted.

Indicators:

- Discrepancies between reported facts and supporting documentation.
- Key employee does not take time off.
- Inability or refusal to provide supporting documentation.

Grantee Sentenced to Prison for Embezzling Federal Funds

A resident of Fairbanks, Alaska, was sentenced in U.S. District Court for the District of Alaska to 9 months in prison, 3 years probation, and ordered to pay a $104,000 fine. This sentencing followed the resident's guilty plea to one count of embezzlement of federal funds.

EPA awarded three grants to two separate entities and the Alaska resident was the project manager on all three grants. The purpose of the grants was to train and certify people in asbestos and lead paint removal. The investigation determined that the individual embezzled some of the funds for personal use, including the operation of his wife's construction company.

In addition to the criminal sentence imposed on the individual, the two entities, the construction company, and the individual's wife and daughter were suspended from participation in government procurement and non-procurement activities.

This investigation was conducted jointly with the Federal Bureau of Investigation.

FRAUD CASE STUDIES

Former Grantee Employee Sentenced for Embezzlement

An employee of an EPA grantee was sentenced in U.S. District Court for the District of Oregon to 21 months in prison, followed by 36 months of probation, and was ordered to pay $268,863 in restitution. In addition, the employee was suspended from participation in federal procurement and nonprocurement activities. The employee was the former office manager of a Soil and Water Conservation District in Oregon, a recipient of EPA grant funds.

As the office manager from 2000 until her resignation in June 2005, the employee was solely responsible for managing the finances of the organization to include making purchases and paying bills. While employed, she devised a scheme to embezzle money from the organization to pay for personal expenses. She made unauthorized charges to a credit card belonging to the organization for personal items including clothing, vacations, gifts, jewelry, and furniture. She then paid the credit card bill with the organization's funds, some of which were derived from EPA grants.

This investigation was conducted jointly with the Federal Bureau of Investigation and the Tillamook County Sheriff's Office.

What to do if You Suspect Fraudulent Activity, Waste, or Abuse

- ✓ **DO** contact the OIG Hotline.
- ✓ **DO** discuss your concerns with the OIG.
- ✓ **DO** seek answers to your questions in the normal course of business.
- ✓ **DO** cooperate with the OIG and expect to be contacted and involved.
- ✗ **DON'T** "tip off" subjects of actual or pending investigation.
- ✗ **DON'T** feel compelled to "prove" a case or intent.
- ✗ **DON'T** "stop" your normal course of business unless otherwise directed.

Report Suspected Fraud Activity to Our Office

You can Place a Telephone Call to Our 24-hour Hotline

(888) 546-8740

You Can Mail Us

U.S. Environmental Protection Agency
Office of Inspector General Hotline (2443)
1200 Pennsylvania Avenue, NW
Washington, DC 20460

You Can E-mail Us

OIG_Hotline@epa.gov

Or You Can Contact Our Offices Directly

Northeastern Resource Center
Arlington, VA
(703) 347-8740

Eastern Resource Center
Atlanta, GA
(404) 562-9857

Central Resource Center
Chicago, IL
(312) 353-2507

Western Resource Center
San Francisco, CA
(415) 947-4507

REMEMBER

Preserving and protecting America's land, skies and waters rest with you.

You are the eyes and ears "on the ground."

Your efforts are critical to the success of our environmental mission.

You can make a difference.

RECOVERY.GOV