Governor's Office of Crime Prevention and Policy (GOCPP)

Grants Fraud (Risks and Prevention) – Module 1 (Understanding Grants Fraud)

Thursday, September 18, 2025

OFFICE OF THE GOVERNOR
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Maryland
GOVERNOR'S OFFICE OF CRIME PREVENTION AND POLICY

https://gocpp.maryland.gov/

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Agenda

- 8:30am – 9am – Attendee Check-In
- 9am – 9:50am – Module 1 (Understanding Grants Fraud)
- 10 am – 10:50am – Module 2 (Common Fraud Schemes)
- 11am – 11:50am – Module 3 (Internal Controls)
- 12pm – 1pm – Lunch
- 1pm – 1:50pm – Module 3 (Internal Controls) - Continued
- 2pm – 2:50pm – Module 4 (Fraud Prevention Measures)
- 3pm – 3:50pm – Module 5 (Conditions and Compliance)
- 4 – 4:30pm – Questions and Answers

General Housekeeping

- Videos of previous training session as well as the slides from this session will be available at https://gocpp.Maryland.gov/grants/.
- In order to receive a Certificate of Completion, all participants must complete the pre-training assessment (https://s.zoom.us/m/b9D6kT7ZS) and the post-training assessment (https://s.zoom.us/m/b9Ea1znbc). You can also access the assessments using the QR codes below:

Pre-Training Assessment

Post-Training Assessment

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Understanding Grants Fraud

Module 1

Learning Objectives

- **Understand** the fundamental definition of fraud and distinguish it from error.
- **Identify** and differentiate between various types of fraud relevant to grants management.
- **Recognize** common "red flags" that may indicate potentially fraudulent activity within grant programs.
- **Appreciate** the importance of a proactive approach to understanding fraud risks.

Introduction to Fraud: Why It Matters In Grants

- Understanding fraud is a critical first step in effective grants management.

- **Key Points:**
  - Grants involve significant public or private funds.
  - Vulnerable to misuse due to complex regulations, diverse stakeholders, and sometimes limited oversight.
  - Fraud erodes trust, wastes resources, and undermines programmatic goals.
  - Every individual involved in grants has a role in prevention and detection.

What is Fraud? Defining the Deception

- Let's begin by defining what fraud truly entails.

- **Core Definition:** "Any intentional deception, misrepresentation, or concealment of a material fact for the purpose of inducing another to act upon it to his or her injury."

- **Key Elements (simple terms):**
  - **Intent:** It's deliberate, not accidental.
    1. **Deception:** Misleading or tricking someone.
    2. **Material Fact:** The lie matters and influences a decision.
    2. **Reliance:** The victim acts based on the lie.
    3. **Damage/Gain:** The victim suffers a loss, or the perpetrator gains.
  - **Distinction:** Fraud vs. Error – A mistake is unintentional; fraud is always deliberate.



Legal Definition of Fraud: Key Elements

- The legal definition of fraud requires specific elements, including intent and misrepresentation, to be present.

- **Detailed Elements (Legal Context):**
  1. **A representation:** A statement or action.
  2. **About a material fact:** Something significant to the decision.
  3. **Which is false:** The representation is untrue.
  4. **Made with knowledge of its falsity or reckless disregard for its truth:** The perpetrator knows or should know it's false.
  5. **With the intent to induce reliance:** Designed to make someone believe it.
  6. **Upon which the victim relies:** The victim acts on the false information.
  7. **To the victim's detriment:** The victim suffers harm or loss.



- **Why this matters:** Understanding these elements helps identify potential legal action.

Types of Fraud Relevant to Grants: An Overview

- Fraud in a grants context can be categorized into several different types. We'll explore the most common types.

- **Key Types (Brief Intro):**
  - Theft & Misappropriation
  - Embezzlement
  - Kickbacks & Bribery
  - False Statements / Representations
  - Conflict of Interest
  - Conspiracy to Defraud

Theft & Misappropriation: Direct Abuse of Assets

- One common form of fraud is the direct theft or misuse of an organization's assets.

- **Definition:** Theft is the unauthorized and unlawful taking or use of an organization's assets (including grant funds) for personal benefit or for purposes unrelated to the grant's objectives.

- **Examples in Grants:**
  - Directly stealing cash from a project petty cash fund.
  - Using grant-funded equipment (e.g., laptops, vehicles) for personal use.
  - Selling grant-purchased supplies for personal profit.
  - Charging personal expenses to a grant account (e.g., groceries, home renovations).



Embezzlement: Betrayal of Trust

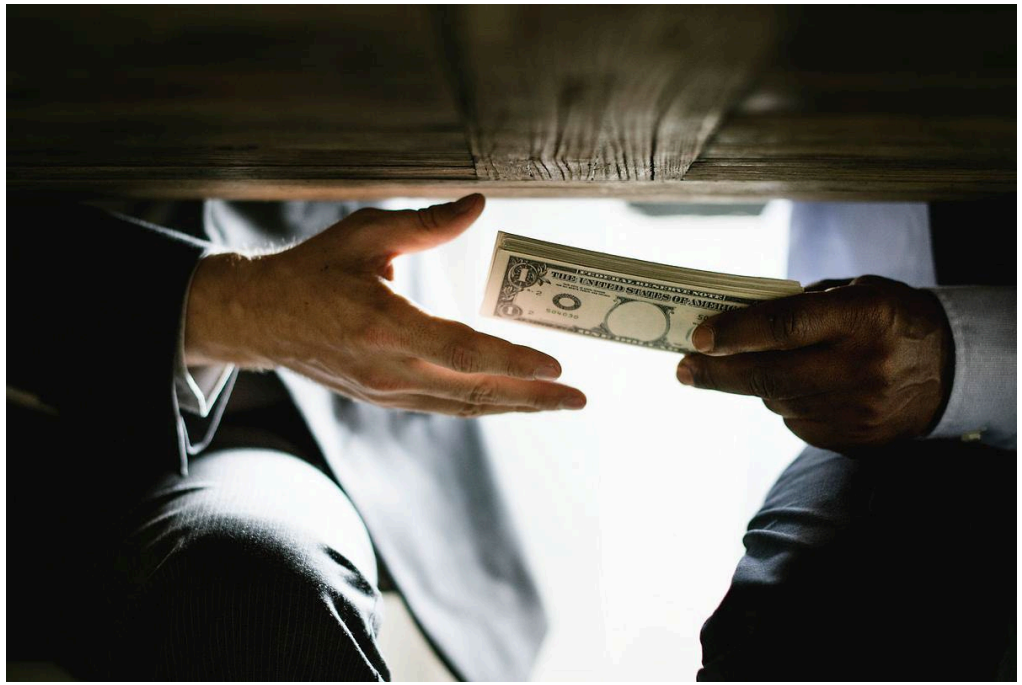
- Embezzlement involves the misuse of funds that an individual has been entrusted to manage.
- **Definition:** Embezzlement is the fraudulent appropriation of money or property entrusted to one's care but actually owned by someone else. It involves a position of trust.
- **Key Difference from Theft:** Embezzlement involves someone lawfully possessing the assets at the time of the taking.
- **Examples in Grants:**
  - A project manager diverting grant funds from the project bank account to their personal account.
  - A bookkeeper creating fake invoices and paying them to themselves from grant funds.
  - An executive using a grant credit card for lavish personal travel and charging it to the grant as "program expenses.“



Kickbacks: The Unethical Return

- **Definition:** A kickback is a payment made to someone in exchange for a special favor, especially an illegal or unethical one (e.g., getting a contract awarded). It's a form of bribery.

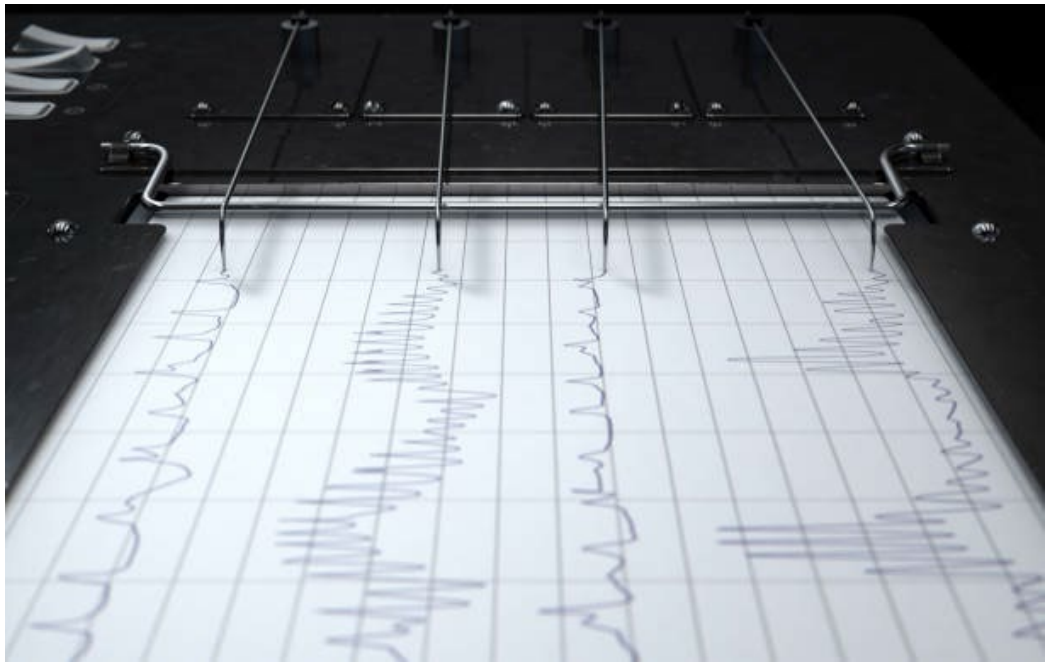
- **How It Works in Grants:**
  - A grant recipient receives a "kickback" from a vendor in exchange for awarding them a contract.
  - An employee steering a grant-funded procurement to a specific company in return for a percentage of the contract value.
  - Submitting inflated invoices and then receiving a portion of the overpayment back from the vendor.



False Statements/Representations: The Fabricated Truth

- False statements or representations is defined as providing incorrect, incomplete, or misleading information, verbally or in writing, to obtain a grant or to misrepresent progress or expenditures.

- **Examples in Grants:**
  - Falsifying data in a grant application (e.g., exaggerated organizational capacity, false project outcomes).
  - Submitting progress reports with fabricated achievements or milestones.
  - Providing false documentation (e.g., fake invoices, altered timesheets) to justify expenses.
  - Misrepresenting the qualifications of staff proposed for a grant project.



Conflict of Interest: Divided Loyalties

- **Definition:** A conflict of interest is a situation in which a person or organization has a vested interest (financial, personal, or other) that could potentially influence their professional judgment or actions in a grant-related decision.

- **Examples in Grants:**
  - An employee involved in selecting vendors for a grant-funded project also owns a significant stake in one of the bidding companies.
  - A grant project director hiring family members for grant positions without proper disclosure or competitive process.
  - An individual reviewing grant applications having a financial interest in an applicant organization.



Bribery: Offering Influence

- **Definition:** Bribery is offering, giving, receiving, or soliciting anything of value to influence an official action or decision.
- **Distinction from Kickbacks:** Bribery often precedes the action and aims to secure a favor, while a kickback is typically a return for a favor already rendered.
- **Examples in Grants:**
  - Offering money or gifts to a government official to approve a grant application or award.
  - A subrecipient offering a "facilitation payment" to a prime grantee employee to overlook non-compliance.



Conspiracy to Defraud: The Coordinated Scheme

- **Definition:** Conspiracy to defraud is an agreement between two or more people to commit fraud. The agreement itself, along with an overt act in furtherance of the agreement, constitutes the crime.
- **Why It's Serious:** Often leads to more complex and larger-scale fraud schemes.
- **Examples in Grants:**
  - Two or more employees colluding to create "ghost employees" and split the fraudulent payroll.
  - A grant recipient and a vendor conspiring to submit inflated invoices and share the proceeds.
  - Multiple organizations agreeing to submit false matching fund documentation to secure a grant.



Grant-Specific Fraud Categories: Unique Vulnerabilities

- Beyond general definitions, fraud can be further categorized by where it occurs in the grant lifecycle.
- Specific phases and aspects of grants management are particularly susceptible.
- **Key Categories:**
  - Application Fraud
  - Performance Fraud
  - Financial Reporting Fraud
  - Procurement Fraud (often linked to Kickbacks/False Billing)

Application Fraud: Deceiving at the Start

- **Definition:** Application fraud is submitting false, incomplete, or misleading information in a grant application to secure funding or obtain an advantage.

- **Common Modus Operandi:**
  - Fabricating qualifications of key personnel.
  - Inflating organizational capacity or past performance.
  - Misrepresenting matching funds or other committed resources.
  - Falsifying project goals, objectives, or expected outcomes.
  - Using stolen identities or creating shell organizations to apply.



Performance Fraud: The Illusion of Progress

- **Definition:** Performance fraud is deliberately misrepresenting the progress, outcomes, or quality of work performed under a grant agreement.

- **Examples:**
  - Fabricating beneficiary numbers or demographic data.
  - Creating fake survey results or program participant rosters.
  - Misrepresenting the completion of project milestones.
  - Falsifying scientific data or research findings.
  - Reporting services provided when none were delivered.



Financial Reporting Fraud: Manipulating the Books

- **Definition:** Financial reporting fraud is the intentional misstatements or omissions of amounts or disclosures in financial reports related to grant expenditures, often to conceal misuse of funds or meet reporting requirements.

- **Examples:**
  - Inflating eligible costs to maximize reimbursement.
  - Hiding unallowable costs within allowable categories.
  - Failing to report grant income or unused funds.
  - Manipulating accounting records to create a false financial picture.
  - Charging costs to the wrong grant or period to avoid detection.



Ethical vs. Legal Implications of Fraud: Beyond the Law

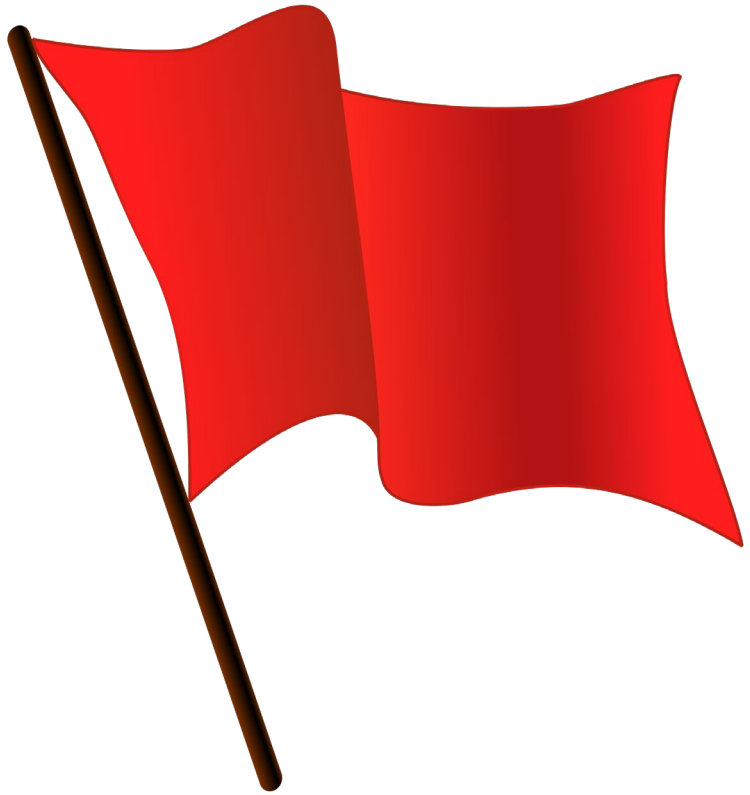
- It is important to distinguish between ethical breaches and illegal acts of fraud.

- **Legal Implications:**
  - Criminal charges (fines, imprisonment).
  - Civil penalties (repayment of funds, damages).
  - Debarment from future federal funding.
  - Reputational damage and loss of credibility.
- **Ethical Implications:**
  - Erosion of public trust.
  - Damage to organizational mission and values.
  - Demoralization of honest employees.
  - Loss of vital services to beneficiaries.
  - Sets a dangerous precedent.



Introduction to Red Flags: Early Warning Signs

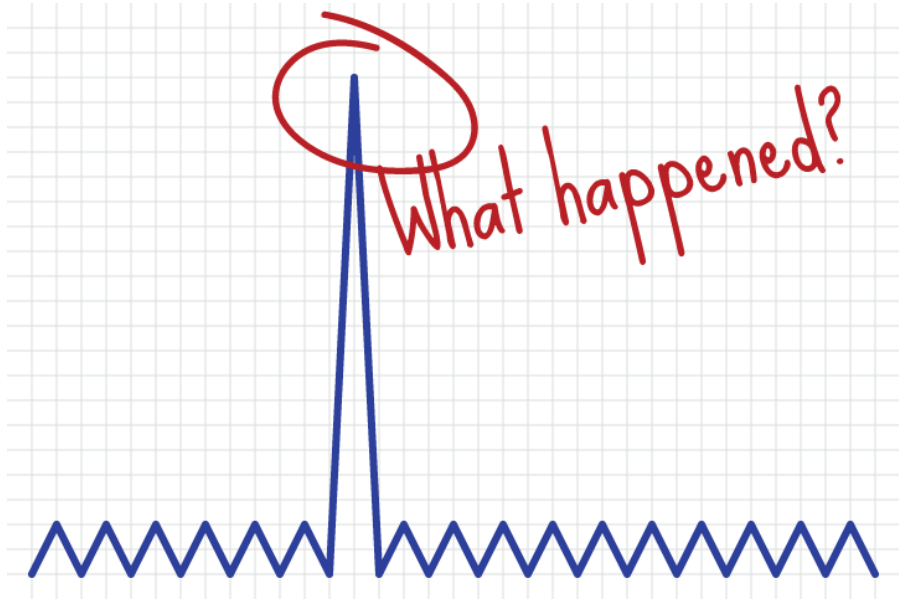
- **What are Red Flags?** Indicators or circumstances that, while not proof of fraud, warrant further investigation due to their unusual nature.
- **Importance:** They are signals, not definitive conclusions. They require attention and follow-up.
- **Analogy:** Like a warning light on your car dashboard – it tells you something might be wrong, but not exactly what.



Financial Red Flags (General): Unusual Money Movements

- Certain general financial anomalies can often indicate a risk of fraud.

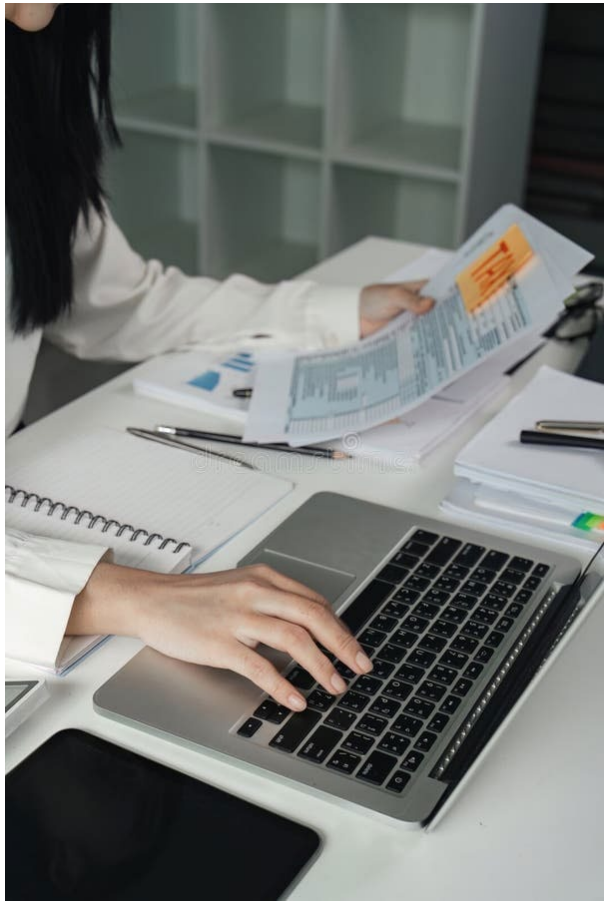
- **Common Indicators:**
  - Unusual or unexplained expenditures (e.g., large cash withdrawals, payments to unknown entities).
  - Significant budget variances without clear justification.
  - Missing or incomplete financial documentation.
  - Inconsistent accounting records.
  - Sudden or frequent changes in vendors or banking details.
  - Excessive or unusual activity in petty cash.



Financial Red Flags (Grant-Specific): Targeting Grant Funds

- Specific financial warning signs may also be present within your grant-related documentation.

- **Indicators in Grants Context:**
  - Expenses charged to the grant that seem unrelated to its purpose.
  - Lack of supporting documentation for grant expenditures (e.g., receipts, invoices, timesheets).
  - Inconsistent expenditure patterns (e.g., large spending spikes at the end of a grant period).
  - Significant overspending or underspending without proper explanation.
  - Payments to vendors or subrecipients with generic addresses (e.g., PO boxes, residential).
  - Costs claimed that are explicitly unallowable per the grant agreement.



Behavioral Red Flags: Shifts in Demeanor

- Certain changes in an individual's behavior can be a sign of potentially fraudulent activity.

- **Indicators in Individuals:**
  - Living beyond apparent means (e.g., sudden display of wealth).
  - Reluctance to take vacation or sick leave (fear of discovery).
  - Excessive control over records or processes; unwilling to delegate.
  - Unusual defensiveness or irritability when questioned.
  - Addictions (gambling, drugs) or financial distress.
  - Close association with vendors or subrecipients.
  - Overly protective of grant information.



Document Red Flags: When Paperwork Lies

- Fraud can often be detected by carefully scrutinizing the integrity of physical and digital documents.

- **Indicators in Records:**
  - Altered or photocopied documents where originals are expected.
  - Missing documents or sequential gaps in numbering (e.g., invoices, checks).
  - Unusual handwriting or font changes on official documents.
  - Documents with excessive white-out or manual corrections.
  - Lack of proper authorization signatures.
  - Invoices from vendors with sequential invoice numbers but different dates.
  - Generic invoices lacking specific details.

Systemic Red Flags: Weaknesses in the Structure

- Weaknesses in an organization's systems and controls can create opportunities for fraud.

- **Indicators in Processes/Controls:**
  - Weak or nonexistent internal controls (e.g., lack of segregation of duties).
  - Lack of clear policies and procedures.
  - Poor oversight or management review.
  - High employee turnover in key financial or grant-related positions.
  - Lack of regular reconciliation of accounts.
  - Absence of a strong ethical tone from leadership.
  - Outdated or poorly secured accounting systems.

Vendor/Subrecipient Red Flags: Partners in Crime?

- Warning signs may also be present when dealing with vendors or subrecipients.

- **Indicators Related to External Parties:**
  - New vendors with no verifiable business history or questionable references.
  - Vendors with P.O. Box or residential addresses only.
  - Vendor names similar to employee names or family members.
  - Unusually high prices for goods/services compared to market rates.
  - Subrecipients consistently submitting incomplete or late reports.
  - Lack of competitive bidding process for high-value contracts.
  - Vendor invoices lacking specific details about services or goods.



Project Management Red Flags: Project Anomalies

- Be aware of red flags that may emerge during the project management lifecycle.

- **Indicators in Project Execution:**
  - Significant, unexplained delays in project milestones.
  - Unverified or vague progress reports.
  - Sudden and unexplained changes in project scope or budget allocation.
  - Lack of regular monitoring visits or site visits (for subrecipients).
  - High discrepancy between reported progress and actual observable results.
  - Unusual pressure from project managers to approve payments quickly.



Grantee Organizational Red Flags: Culture and Structure

- Red flags can also be indicative of broader issues within a grantee's organizational structure.

- **Indicators Within the Grantee Organization:**
  - Lack of transparency in operations or financial dealings.
  - Unclear organizational structure or lines of authority.
  - Frequent changes in key management or accounting staff.
  - A culture where mistakes are heavily punished, encouraging concealment.
  - Resistance to internal or external audits.
  - Lack of an ethics policy or whistleblower protection.



Acknowledging Limitations of Red Flags: Not Proof, But Prompts

- **Crucial Point:** A red flag is an indicator of potential fraud, not definitive proof.
- **Importance of Context:** One red flag might be a simple mistake; multiple, consistent red flags warrant closer scrutiny.
- **Call to Action:** Red flags should trigger curiosity, further questions, and investigation, not immediate accusations.

Exercise/Discussion: "Spot the Red Flag" Scenario

- Let's test your ability to spot red flags in a practical scenario.
- **Instructions:** Read the following scenario. What potential red flags do you observe, and what concerns do they raise?
- **Scenario (Example):** "A nonprofit organization receives a grant for community outreach. The project manager, who rarely takes vacation, recently purchased a new luxury car. You notice several invoices from a newly established cleaning company, 'Clean & Gleam Services,' where the address is a P.O. Box. The invoices are for 'general administrative support' and seem unusually high for the services described. When you ask the project manager for more details, they become agitated and dismissive."
- **Discussion Points:**
  - What red flags are present?
  - What category do they fall under?
  - What would be your immediate next step?

Module Summary & Key Takeaways

- To recap, this module provided a foundational understanding of fraud, its types, and how to spot its key warning signs.

- **Recap:**
  - Fraud is intentional deception, distinct from error.
  - It encompasses various schemes, from theft to false reporting.
  - Grants are vulnerable to fraud at all stages.
  - Red flags are vital early warning signs that demand attention.
  - Understanding these concepts is the first step in effective fraud prevention.

- **Action Item:** Be vigilant. Trust your instincts when something doesn't feel right.