



## Fraud, Waste, and Abuse Guide

*This document is an informational guide to provide a basic understanding of Fraud, Waste and Abuse. Differences in organizations and programs may require variations to the analysis. This reference guide does not make any assurances or promises, does not create an advisory relationship, and does not supplant the need to understand Federal, State, and Local requirements.*

### I. Fraud

**Fraud** is defined as the wrongful or criminal deception intended to result in financial or personal gain. Fraud includes false representation of fact, making false statements, or by concealment of information. Examples include, but are not limited to, the following:

- Falsification of information during the applications or procurement process
- Billing for services not rendered or duplication of payments
- Alteration of documents or forgery, which may include contracts, purchase orders, and invoices
- Bribery or kickbacks
- False claims or bid rigging
- Theft, embezzlement, or other misapplication of funds or assets
- Impropriety with respect to reporting financial transactions
- Falsifying eligibility

### **Fraud Quick Guide (Be on the lookout!)**

The list of general fraud indicators presented below is not meant to be all-inclusive and should not preclude program staff from identifying and considering other indicators. However, the items presented below should raise awareness to a greater possibility of fraud occurring or being present:

- Management override of key controls
- Lack of documented or monitored internal controls
- Lack of, or outdated, processes and procedures
- Lack of separation of duties and chain of command
- Overly complex organizational structure
- Key employee never taking leave or vacation
- High turnover rate, reassignment, firing of key personnel
- Missing or destroyed electronic or hard copy documents
- Poor quality or illegible photocopied documents
- "Unofficial" electronic files or records instead of "archived" or "official" files or records
- Unsupported revisions or alterations to data files or records
- File modification dates that do not fit the appropriate timeline for when they were created
- Missing signatures of approval or discrepancies in signature/handwriting
- Computer report totals that are not supported by source documentation
- Lengthy unexplained delays in producing requested documentation

### II. Waste and Mismanagement

**Waste and mismanagement** is defined as the thoughtless or careless expenditure, mishandling, and/or abuse of resources to the detriment (or potential detriment) of the U.S. Government. Failure to comply with laws, rules, and regulations could lead to incurring unnecessary costs resulting from inefficient or ineffective practices, systems, or controls. Incurring these unnecessary costs may constitute waste and mismanagement of federal funds. Some examples included, but are not limited to, the following:

- Purchasing unnecessary supplies, material, and equipment
- Purchasing supplies material, and equipment without regard of cost
- Using supplies, materials, and equipment carelessly resulting in unnecessary waste and replacement

### III. Abuse

**Abuse** is defined as excessive or improper use of a thing, or to use something in a manner contrary to the natural or legal rules for its use. Abuse can occur in financial or non-financial settings. Examples include, but are not limited to, the following:

- Making procurement or vendor selections that are contrary to existing policies or are unnecessarily extravagant or expensive
- Receiving favor for awarding contracts to certain vendors
- Using one's position for personal gain or to gain an advantage over another
- Taking excessively more time than necessary to perform a task or function

### IV. Whistleblower Protections

#### Kansas Whistleblower Act

Statute: KSA § 75-2973

This Act is relative to the protection of state employees and indicates in part:

“(c) No supervisor or appointing authority of any state agency shall prohibit any employee of the state agency from discussing the operations of the state agency or other matters of public concern, including matters relating to the public health, safety and welfare either specifically or generally, with any member of the legislature or any auditing agency.

(d) No supervisor or appointing authority of any state agency shall:

- (1) Prohibit any employee of the state agency from reporting any violation of state or federal law or rules and regulations to any person, agency or organization; or
- (2) require any such employee to give notice to the supervisor or appointing authority prior to making any such report.”

### V. Steps to Take Prior to Award

Recipients of federal funds must have strong internal controls in place from the beginning of the program/projects prior to awarding funds to applicants. In addition to developing internal controls (including processes and procedures), below are some steps that must be taken by recipients awarding funds to applicants:

- Verify that the applicant or contractor is not listed on Sam.gov or as applicable the Office of Foreign Assets Control lists. Entities and persons found on these lists are ineligible to participate in federally funded programs.
- Perform a Duplications of Benefits (DOB) check to ensure that there is no duplication of benefits. A DOB occurs when an entity or person receives funds from various sources for the same purpose and the total funds received for that purpose is more than the total amount needed to address the need. If an actual DOB check is not performed by the recipient, the recipient may require that subrecipients complete a DOB Certification form which must be maintained in the records.

An organization should have policies and procedures which address the inner workings and operations of the organization and grants management (including an organizational/staff chart). In addition, staff should be trained on the types of fraud, waste, and mismanagement – including the review of the

“Categories and Indicators of Risk” chart in this document -- to be aware of the types of fraud that occur in various tasks and programs. Staff also need to be trained to know what to do, why, and when to report suspected activity.

Establish an Anti-Fraud Waste and Abuse Hotline or other communication channels that can be clearly communicated to the public when promoting funding opportunities. This channel will allow anyone with evidence of fraud, waste, or abuse activity to report such activity to the prime recipient responsible for compliance and oversight of federal expenditures. For example, the State of Kansas maintains a portal for the report of fraud, waste, or abuse of State funds, ([Report Fraud, Waste or Abuse - Kansas COVID-19 Response and Recovery \(ks.gov\)](#)).

## **VI. Waste, Fraud, and Abuse Reports**

If you have evidence of fraud, waste, or abuse activity, report such activity to management, an oversight agency, or legal authorities for further investigation.

Best practice would be for the entity to have adopted a written policy, and to follow it. Typical steps in the handling of waste, fraud and abuse reports include:

- The report, disclosure or tip is received and reviewed,
- The report and evidence provided is evaluated to validate it coincides with waste, fraud, or abuse, and further documentation may be requested,
- The report will be referred to the appropriate authorities (such as the U.S. Department of Treasury),
- An investigation will be undertaken and completed, and
- Based on findings resulting from the investigation, prosecution or other appropriate action will be taken.

## Fraud: Categories and Indicators of Risk

The table below is a high-level listing of specific fraud categories and related indicators of fraud. For example, in the Financial Statements category, unrecorded invoices and transactions indicate the risk of fraud. These indicators are items that will be flagged by auditors.

<b>Financial Statements</b>
<p><b><u>Improper Disclosures-Subsequent Events</u></b></p> <ul style="list-style-type: none"><li>• Intentional omission of the disclosure for subsequent events in the financial statements</li><li>• Instructions given to staff to destroy supporting documentation</li></ul> <p><b><u>Concealed Liabilities and Expenses</u></b></p> <ul style="list-style-type: none"><li>• Invoices not recorded in the sub-ledger(s)</li><li>• Significant estimates of liabilities and expenses are difficult to corroborate</li><li>• Management instructs employees to omit, or not record, transactions from the accounting sub-ledgers</li></ul>
<b>Labor and Material Costs</b>
<p><b><u>Labor Amounts Knowingly Mischarged</u></b></p> <ul style="list-style-type: none"><li>• Significant variances between budgeted direct labor costs/hours and actual, claimed, direct-billed labor costs/hours</li><li>• No manager review and approval of employee reported hours and timecards</li><li>• Lack of segregation of duties in the accounting, payroll, and/or billing functions</li><li>• Inadequate documentation of justifications/approvals for changes in the scope of work</li><li>• Minimum employment qualifications not being met by personnel.</li><li>• Incomplete and/or inadequate personnel records</li></ul> <p><b><u>Labor Costs for Fake/Wrong Employees</u></b></p> <ul style="list-style-type: none"><li>• Employees classified in more than one labor category</li><li>• Timesheet signed by the same employee with different signatures</li><li>• Employees do not have the background, experience, or education specified in the contract requirements</li><li>• An entity billed for the work of fictitious employees such as close contacts of the contractor's management</li></ul> <p><b><u>Labor Costs Billed in Excess of Time Worked</u></b></p> <ul style="list-style-type: none"><li>• Requested documentation is received after a delay</li><li>• Labor charges associated to the contracts are inconsistent with contract's progress</li><li>• Photocopies of timecards are submitted for review to make it difficult to detect alterations</li><li>• Unexplained alterations made to timecards</li></ul> <p><b><u>Material Costs Billed in Excess of Materials Used</u></b></p> <ul style="list-style-type: none"><li>• Material cost transfers from county/city to commercial contractors</li><li>• Materials ordered and charged in excess of contract requirements</li><li>• Initial billings for actual material costs exceed the negotiated amounts</li><li>• Entity (a county or city) charged for finance costs on non-county/city contracts.</li></ul>
<b>Contractor Fraud</b>
<p><b><u>Contract Progress and Performance Not Substantiated</u></b></p> <ul style="list-style-type: none"><li>• Contractor progress reports contain vague or inconsistent information on contractor performance.</li><li>• Evaluation of progress reports indicates that contract milestones or deliverables may not be completed on time.</li><li>• Missing contractor progress reports.</li></ul> <p><b><u>Illegal Contractor Gratuities</u></b></p>

- Complaints about substandard performance by a contractor.
- Frequent use of contractor despite quality, cost or performance problems.
- Excessive use of a contractor in a competitive field.
- Apparent favoritism of a contractor by county/city personnel

#### **Fraudulent Overbilling**

- Increase in billing, but no increase in services or products delivered.
- Contractor submits copies of the same invoice for payment.
- Contractor submits more than one original invoice for the same goods or services.
- Contractor raises the price of goods and services above the contractual level.

#### **Fees Paid for Services Outside of the Contract**

- Contractors certify payments for vendor goods, services, or salaries.
- Entity capacity constraints prohibit ongoing county/city monitoring of each contractor's work.
- Contractors perform inherently governmental functions.

#### **Bid Rigging from Vendors**

- Vendors/bidders provide cash and other favors in exchange for work
- Vendors/bidders appear to deliberately include unacceptable terms/specifications in their bids.
- Vendors/bidders meet before the selection of a contract; advance knowledge of competitors' bid/pricing.
- Different vendors/bidders make identical errors (e.g. calculations, spelling) in contract bids.
- Bids from different vendors contain similar handwriting or typeface or use identical forms or stationery.

### **Fraud in Programs or Operations**

#### **Misuse of Emergency Relief Supplies**

- Reports that essential emergency and/or medical supplies are not received by intended recipients; despite distribution reports indicating that supplies were delivered.
- The same individuals repeatedly acknowledge receipt of inventory items that are scarce. Very few signatures can be traced to individuals residing in locations receiving emergency supplies.
- Inventory distributions of supply kits are staggered with repeated receipt of large quantities of emergency or medical supplies by the same individual(s).
- Internal controls, policies, and procedures are not followed because of increased demands for emergency and/or medical supplies.
- Reports that emergency items are sold on the local black market at highly inflated prices.

#### **Eligibility Fraud**

- Program eligibility rules were not followed, and program participant falsified their applications
- Program participants intentionally misrepresented household income and family size in order to falsely qualify for rental assistance.
- The agency does not have procedures to ensure that information is accurate and does not have the capability to monitor duplicate applications.
- Requests appear excessive or are not consistent with other applications.
- Landlord and tenant names are the same and/or similar.
- The same address appears multiple times.

#### **Payments to Fake or Wrong Contractors**

- Contractor addresses are post office box numbers instead of street addresses.
- Contractor telephone numbers are not valid.
- Contract administration personnel have never met the contractor, visited their business location, or validated that the contractor completed the required work.

#### **Service Fees Paid to Fake or Wrong Subcontractors**

- Excessive numbers of subcontractors working on a contract.
- Individuals listed as employees of more than one subcontractor.
- Subcontracting companies that are not legitimate businesses.
- An organization does not actively monitor the prime contractor's relationship with the subcontractor.

#### **Fraudulent Invoices**

- Invoices with large dollar amounts for unspecified services from consultants.
- Invoices do not have adequate supporting documentation or supporting documentation is incomplete. Also, invoice charges are excessive.
- Invoices for building materials are absent from construction project files and equipment charges are not consistent with contractor daily reports of equipment on hand.
- Contractor charges for fixed costs such as Labor and General and Administrative fluctuate, however, contract terms were not renegotiated.
- The contractor's staff is being paid for work on a project without making any significant progress and there is a lack of evidence of county/city oversight and review of contractor timesheets.
- Employee timesheets are unclear making it difficult to determine if the employee hours charged support a project.

#### **Duplicate Payments**

- Significant increase in an organization's purchase card use without an increase in the number of authorized purchase card users
- Numerous missing invoices, receipts, and purchase justifications. Receipts contain "white-outs," date changes, and changes to product descriptions, or are illegible.
- Purchases fall at, or slightly below, the purchase threshold of \$3,000.
- One cardholder makes repeat purchases from a specific vendor.
- Research shows that a vendor or company may not be authentic (i.e. phony business address or no evidence that the company is incorporated, etc.).
- Cardholder makes unauthorized week-end purchases.

#### **Bid Rigging from Prime or Sub Recipient**

- Contracting personnel working together award numerous contracts to the same company.
- Review of contract files indicate that a specific contractor may have gained an unfair competitive advantage such as having access to information that was not provided to other competitors or submitting proposal documentation after the established due date.
- Contracting officials are not able to demonstrate that efforts were made to solicit competition from all potential bidders. The contract's purpose did not meet emergency procurement requirements.
- Evidence of bribery or kickbacks such as payments to a contractor's family members and/or close associates and favoritism to a vendor or small groups of vendors.

### **Prime or Subrecipient Travel and Payroll Fraud**

#### **Invalid Receipts**

- Receipts are incomplete and do not appear to be authentic.
- The printing on a hotel or motel billing does not resemble other receipts submitted by the same facility.
- Imprints of credit cards on hotel receipts appear to be flawed or incomplete.

#### **Excessive Overtime Fraud**

- Managers do not perform supervisory reviews of employee timesheets.
- Timesheet certifying officials are located at remote locations and do not have direct management responsibility for employees.
- Management has not established procedures to monitor employee overtime compensation claims.
- Lack of evidence to support claims for overtime work (i.e., other employees cannot verify attendance).

#### **Duplicate Payroll Charges**

- Individual is employed as a county/city employee and as a contractor.
- Employee's contract authorizes them to bill the county/city for work performed after their official workday ends or on weekends.

- Analysis of contractor work hours shows little variation, despite fluctuations in overtime claims by employees performing similar work.

#### **Timesheet Fraud**

- Timesheets submitted are missing the signature of an authorizing official.
- Employee claims overtime that was not requested or approved.
- Evidence of modifications to timesheets, especially after it was signed by an authorizing official.

#### **Separated Employees**

- Contractor separation dates are not accurate.
- Management does not monitor changes to the payroll records.
- The human resources department does not periodically provide lists of current contractors or review and reconciliation with component payroll records.

#### **Ghost Employees**

- Signatures that are erratic and contain unconnected lines are red flags for a forged signature.
- Payroll records contain the names/signatures of individuals that do not work for the county/city.
- Multiple direct deposits are made to the same bank account but under different names.
- Employee does not have a personnel file.
- Employee does not have withholdings for taxes and Social Security.
- Supervisor receives inadequate training and is not aware of the proper payroll procedures to perform.

### **Asset Misappropriation**

#### **Excess Inventory**

- Analysis of PPE records disclose unusual patterns or trends that cannot be reasonably explained and/or unreliable inventory data available.
- Out of sequence labels and shipping documents.
- PPE items marked with incorrect codes.

#### **Government Checks**

- A pattern of payments to unauthorized persons or vendors.
- Disbursements frequently occur outside of official business hours or during weekends.
- The same employees are responsible for processing suspect payments.
- Evidence of personal relationships with unauthorized check recipients.
- Employees share system passwords.
- Computers are unattended while employees remain logged on the system.

#### **Billing Scheme**

- Activity in dormant vendors' accounts.
- Payments made to vendors even though they did not provide services.
- Weaknesses in the computer access controls, such as not logging off the system.

#### **Check Tampering**

- Checks issued out of sequence.
- Check stock stored in an unsecured location.
- Easy access to signature stamps.
- A vendor's address contains a Post Office Box.
- Employee/Vendor address comparison not performed.

#### **Expense Reimbursement**

- Multiple requests for reimbursement for certification costs within a specific timeframe.
- Absence of management review for reimbursement packages.
- Failure to maintain a list of the employees who seek reimbursement for certification costs.

### **Retail Operations**



### **Black Market Sales**

- Fraud Hotline report of illicit activity.
- A noticeable gap in unique identifier per voucher/card.
- No registration of beneficiary to unique identifier of cards.

### **Food Discounts**

- Lack of individual cashier accountability.
- Large number of meal discounts recorded at vendors when food promotions are not occurring.
- Discounted sales account activity is higher compared to other locations with similar sales volumes.
- Cash register transaction records show that suspect food discounts are processed by the same employee(s).

### **Inventory Theft**

- Internet vendor is a department employee, relative, or close associate.
- Manager relocates to a new location and has merchandise shipped directly to them at the new location.
- The inventory entered into the inventory records; however, review of the sales, transfers, and physical inventory records discloses no record of the shipment.
- Items for sale on the internet by a "home based" internet business closely resemble items sold and distributed.
- Review of the vendor's internet sales history shows that items offered for sale were received into the store's inventory accountability records but cannot be accounted for in sales, transfers, or physical inventory records.

## **Healthcare**

### **Billing for Services not Rendered**

- Discrepancies between provider statements of service or responses from service recipients and those billed to county/city programs.
- Patients receiving care in different facilities on the same dates and doctor visits never occurred on dates that claims for prescriptions refills were submitted.

### **Duplicate Payments**

- Absence of an automatic reject control for claims submitted by the same facility.
- Multiple claims for the same patient, same provider, dates of service, and amounts billed.
- Use of multiple provider identification numbers for the same provider.
- Failure of processors to compare actual claim documentation and the practice of making decisions based on summary data. Processor's ability to override system controls.
- Submission of the same claim's multiple times or repeated resubmission of claims with minor changes to the claim and/or supporting documentation.

## **Resources**

<i>Document</i>	<i>Description</i>	<i>Link</i>
Fraud, Waste, and Abuse Strategies Webinar	Office of Recovery's 9/28/21 webinar defining and giving examples of fraud, waste, and abuse. Reporting and preventing fraud are also covered.	<a href="#">KS-RO-Grant-Implementation-Waste-Fraud-and-Abuse-Strategies-Webinar_vF1.pdf</a>
Fraud Prevention – Resources by Fraud Type (AGA)	The Association of Government Accounts provides a toolkit or resources by fraud type (such as	<a href="#">AGA - Resources by Fraud Type (agacgfm.org)</a>



	cash larceny, forgery, payroll schemes, theft). For each type, risks, red flags, and best practices are noted.	
Grant Fraud Awareness handout (OIG)	This Office of Inspector General handout outlines fraud from a grant perspective. It includes fraud assumptions, consequences, and common grant fraud risks (such as theft and conflict of interest).	<a href="#">Grant Fraud Awareness Handout (justice.gov)</a>
A Framework for Managing Fraud Risks in Federal Programs	The U.S. Government Accountability Office's 61-page study discusses proactive risk management, including the four components that make up the framework for managing fraud (commit to combat fraud, assess risks, design/implement a strategy, and evaluate outcomes).	<a href="#">GAO-15-593SP, A Framework for Managing Fraud Risks in Federal Programs</a>

## Resources – For Further Research

<i>Document</i>	<i>Description</i>	<i>Link</i>
Office of Management and Budget – Uniform Guidance - Code of Federal Regulations (CFRs)	Code of Federal Regulations – Part 200 contains the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards. 2 CFR 200.303 deals with internal controls.	<a href="#">eCFR :: 2 CFR Part 200 -- Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards</a>
U.S. Department of Treasury	The U.S. Department of Treasury is the Federal awarding agency for the ARPA SLFRF grant. Treasury OIG investigates matters related to Treasury. This link lists types of violations that should be reported.	<a href="#">Report Fraud, Waste, and Abuse   Office of Inspector General (treasury.gov)</a>
Pandemic Oversight – Pandemic Response Accountability Committee	This site shares common challenges across the major relief programs.	<a href="#">PRAC   Pandemic Oversight</a>
U.S. Government Accountability Office	This link provides access to the GAO's Standards for Internal Control in the Federal Government.	<a href="#">The Green Book   U.S. GAO</a>
Association of Certified Fraud Examiners	This link leads to ACFE's Fraud Resources page.	<a href="#">Anti-Fraud Resources   Association of Certified Fraud Examiners (acfe.com)</a>
The Institute of Internal Auditors	This site contains the standards and framework for internal auditing.	<a href="#">The Institute of Internal Auditors (theiia.org)</a>