PRESENTATION AGENDA

- Discuss the Office of Inspector General (OIG) mission and authority
- Discuss the American Recovery and Reinvestment Act (ARRA)
- Discuss the OIG’s Recovery Oversight Office
- Present an overview of fraud with some examples
- Discuss the impact fraud has on the Department of the Interior
- Review indicators for detection and prevention of fraud
- Explain ways to report suspected fraud
MISSION OF OIGs

• Promote Excellence, integrity and accountability in the programs, operations, and management

• Promote effective financial, grant and procurement activities

• Promote the highest standards of integrity, impartiality and professionalism

• Promote effective coordination & improved management practices among Department components
INSPECTOR GENERAL AUTHORITY

- Derived from the Inspector General Act of 1978, as amended
- To conduct and supervise audits and investigations relating to programs and operations of the Department
- To prevent and detect fraud, waste and mismanagement in programs and operations
- To have access to ALL records, reports, audits, reviews, documents, papers, recommendations, or other material relating to programs and operations
Almost $800 billion to address a faltering economy, ailing national infrastructure, and needed investments in science and health to:

- Preserve and create jobs
- Assist most impacted by the recession
- Spur technological advances in science and health
- Invest in infrastructure
- Stabilize State and local government budgets
IMPACT OF ARRA

• Unprecedented
• Increased Accountability
• Heightened Transparency
• New Reporting Requirements
• Expedited Everything!!!
OBJECTIVES OF ARRA

- Funds are awarded and distributed in prompt, fair and reasonable manner
- Uses are transparent to the public
- Fraud and waste is mitigated
- Avoid delays and cost overruns
- Project goals are achieved
ARRA PLANNING

• Expected public benefits should demonstrate cost-effectiveness and be clearly stated in concise, clear and plain language targeted to an audience with no in-depth knowledge of the program.

• Managers to be held accountable for achieving goals
ARRA ACCOUNTABILITY

- All funds must be clearly distinguishable from non-Recovery Act funds
- Audits and investigations to identify and prevent wasteful spending, waste, fraud, and abuse;
- Qualified personnel overseeing funds;
- Competitive awards maximized;
- Cost overruns minimized; and
- Improper payments minimized
ARRA ACCOUNTABILITY

Single Audits:

- OMB will use the OMB Circular A-133 Compliance Supplement to notify auditors of compliance requirements which should be tested
- OIGs will reach out to the auditing profession and provide technical assistance and training as well as perform quality control reviews
ARRA ACCOUNTABILITY

• To the maximum extent practicable, contracts using Recovery Act funds shall be awarded as fixed-price contracts (See FAR Subpart 16.2) using competitive procedures. These procedures include those identified under FAR Subparts 6.1, 6.2, and 16.505(b)(1) and Subsections 8.405-1 and 8.405-2.
ARRA MONITORING

- Implement quality assurance procedures;
- Documenting timely inspection and acceptance;
- Identify and remedy deficiencies related to contractor performance, cost, and schedule; and
- Complete timely contractor performance evaluations that accurately reflect the contractor’s actual performance, supported by appropriate documentation.
 Agencies to establish a page on their existing website dedicated to the Recovery Act, which will link to Recovery.gov. All single audit findings will be posted on the internet.

For each contract or order over $500,000, agencies to provide a summary, including a description of the required products and services, which will be made available publicly and linked to Recovery.gov.
ARRA REPORTING

What is reported?

- Total amount of recovery funds received by agency
- Amount of funds expended or obligated to projects
- A detailed list of all projects or activities that were expended or obligated
- Detailed information on any sub-grantees or subcontractors
- Number of jobs created
Timeframes/Instructions

• Initial statutory deadline of October 10, 2009
• Quarterly reports due 10 days after end of each quarter
• Instructions will be available at www.FederalReporting.gov by August 2009
## ARRA DISTRIBUTION ($3.05 BILLION)

<table>
<thead>
<tr>
<th>Agency</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bureau of Reclamation</td>
<td>$1 billion</td>
</tr>
<tr>
<td>National Park Service</td>
<td>$750 million</td>
</tr>
<tr>
<td>Bureau of Indian Affairs</td>
<td>$500 million</td>
</tr>
<tr>
<td>Bureau of Land Management</td>
<td>$320 million</td>
</tr>
<tr>
<td>U.S. Fish and Wildlife Service</td>
<td>$280 million</td>
</tr>
<tr>
<td>U.S. Geological Survey</td>
<td>$140 million</td>
</tr>
<tr>
<td>Office of Inspector General</td>
<td>$15 million</td>
</tr>
</tbody>
</table>
ARRA AND THE IG’S

New requirements

• ALL recipients MUST report suspicions

• Instances of fraud & waste to be mitigated

• OIG will perform audits & inspections of agencies awarding ARRA funds
OIG ARRA OVERSIGHT

• Efforts will focus on preventing fraud, waste, and abuse of recovery and reinvestment dollars;

• reducing the impact of such misuse when it does occur; and

• ensuring transparency in our oversight efforts.
OIG STRATEGY

PREVENTION
- Education
- Liaison

REPORTING
- OIG website
- Recovery.gov

DETECTION
- Critical Point Eval
- Monitoring

RECOVERY OVERSIGHT OFFICE
What is fraud?

- An intentional misrepresentation which causes the suffering of damages and usually monetary losses

- Fraud is characterized by acts of guile, trickery, concealment, or breach of confidence, which are used to gain some unfair or dishonest advantage involving money, property, or services
THE SILENT CRIME

Differs from other crimes:

- Ordinary criminal attempts to conceal identity. For example, a burglary will be detected; the burglar conceals his identity by timing the crime to utilize darkness or lack of witnesses.

- Fraudster attempts to conceal the crime itself. For example, a bookkeeper hides embezzlement by creating false accounts. Once the false accounts are detected it is usually obvious who did it.
POTENTIAL FRAUD LOSS BY BUREAU

As much as 7% of annual revenues are lost to fraud.*

Incorporating ARRA, approximately $1 billion of our total budget is at risk:

BIA = $201
BOR+$148.2
BLM=$98.1
USGS=$82.8
NPS = $229.2
FWS = $120.4

*Derived from 2008 ACFE Report to the Nation on Occupational Fraud and Abuse

RECOVERY OVERSIGHT OFFICE
FRAUD CRIMINAL VIOLATIONS

- Forgery
- Mail Fraud
- Conspiracy
- False Claim
- Embezzlement
- False Statement
- Theft and Bribery
- Conflict of Interest
- Obstruction of Federal Audit
- Anti-Trust
- Major Fraud Against the United States
WHO COMMITS FRAUD?

- Government contractors
  - Prime contractors
  - Sub-contractors
- Government employees
- Financial assistance recipients
  - Sub-recipients
  - Contractors
- Vendors seeking government business
WHY FRAUD OCCURS

- Greed (money or power)
- Lack of Transparency (Concealment)
- Lack of Public Awareness
- Poor monitoring
- Poor financial controls/policies
DOI TOP MANAGEMENT CHALLENGES

- Financial Management
- IT
- Health & Safety
- Maintenance
- Indians/Insular Areas
- Resource Protection
- Revenue Collections
- **Procurement, Grants and Contracts**
Procurement, grants and contracts have historically been subject to fraud and waste government wide.

- DOI awards $4.5 billion p/a in contracts
- DOI awards $2 billion p/a in grants
DOI OIG ACQUISITION FINDINGS

- DOI has developed a culture that values expediency over accountability, transparency and integrity;

- DOI’s preference for sole-source contracting limits competition
  - Material modification = sole-source contract
  - Written justifications were inadequate
  - Fair-value pricing was not established
PRE-AWARD FRAUD SCHEMES

Requirements Determination
• Falsifying actual need
• “Gold-Plating” the need

Specifications/Statements of Work
• “Steering” the acquisition to a particular vendor or product.
• Leaving a “loop-hole” to poor performance
What to look for:

• Conflicts of interest
  - listing product by brand name
  - unusual language or language suggesting someone else wrote the specs

• Pressure to use specific vendor or product
VENDOR SELECTION FRAUD

**Bidding Process**
- Vendor collusion
- Favoritism - Selective Solicitation
- Improper release of information

**Award Process**
- Improper evaluation
- Allowing changes
What to Look For:

- Patterns amongst bids
- Bids close to or right on government estimate
- Restricted number of vendors solicited
- Unsuccessful bidder becomes sub-contractor
- Improper evaluation - non-selection of lowest bidder
- Unusual bid changes
Performance Issues
• Inadequate quality control
• Improper change orders/modifications

Progress Payments
• Improper amounts
• False certifications
What to Look For:

- Inadequate quality control
- Improper change orders/modifications
- Improper amounts
- False certifications
PERFORMANCE FRAUD INDICATORS

What to Look For:

- Concealing product identification
- Inadequate or missing documentation
- Copies vs. originals
- Unqualified staff
- Unsigned or false certifications
PRODUCT SUBSTITUTION

The intentional submission by the contractor to the government directly or indirectly of goods and/or services that do not conform to the contract specifications or requirements.

• Example:
  – Contractor awarded contract to install fire retardant paneling
  – Contractor installs non-fire retardant paneling
  – Contractor submits invoice to government reflecting that fire retardant paneling was purchased and installed
PRODUCT SUBSTITUTION INDICATORS

- Mismarking/mislabeling of products & materials
- Restricting or avoiding inspection
- Contractor selects samples for testing
- Failure to provide supporting documentation
PRODUCT SUBSTITUTION INDICATORS

- Photocopies vs. originals
- Irregularities in signatures, dates or quantities
- High rate of rejection or failure
- Unsigned certifications
FALSE REPRESENTATION

• Misrepresentation of qualifications, certifications, knowledge, pricing or costs which is then presented to the government to further a fraud scheme.

• Examples:
  – False Certification
  – False/Inflated Resumes
  – False Statements/Invoices
KICKBACK SCHEMES

Secretly providing services or Fees to influence:

• political decisions

• government officials who issue permits

• Government officials who influence, initiate, issue or award contracts, grants or financial agreements.
KICKBACK SCHEME INDICATORS

- Conflicts of interest
- Purchasing employees living beyond means
- Unexplained limitations on number of potential contractors solicited
- Non-award to lowest proposal
- Specs that dictate awards
- Poor established contracting procedures
- Use of unqualified workers
COST MISCHARGING

Improper allocation of costs or the charging of unallowable costs, directly or indirectly, to a government contract.

- A contractor provides services under multiple task orders
- First task order is a firm-fixed-price requirement
- Second task order is a time and materials requirement
- Cost overruns on FFP causes contractor to mischarge
PAYROLL FRAUD

• Prevailing wage Requirements
  - Davis Bacon
  - Services Contract Act

• Benefits Fraud

• Kickback Schemes

• “Ghost” employees
WASTE INDICATORS

Vague, ambiguous, or unclear language within a contract or grant that may result in:

- Excessive and unnecessary costs;
- Delayed schedules;
- Performance of unintended/unwanted work;
- Obtaining excessive/unwanted quantities of supplies;
- Obtaining equipment that does not meet needs;
- Obtaining equipment without adequate maintenance support, and improper storage
WASTE INDICATORS - CONSTRUCTION

• Overbuilding;

• Lack of value engineering to identify less expensive alternatives;

• Use of renewable energy vs. non-renewable energy systems
PREVENTING FRAUD

- Perform audits and inventories
- Reconcile financial records
- Compare bids and proposals
- Perform only authorized transactions
- Protect government and proprietary information
- Maintain supporting documentation
- Establish and follow effective internal controls
- Report suspicious activity
Ensuring you are the “first defense”
Avoid conflicts of interest - follow the rules
Always imagine how your actions look without explanation - no audio
Be fair and reasonable
Work within the limits of your authority
Be aware of contractor efforts to influence or steer you

*Remember - very few contractors are bad*
FOLLOW YOUR INSTINCT...
REPORTING SUSPECTED FRAUD

• Immediately report any suspected fraud
• Making your report
  – Reporting to your supervisor
  – Reporting to the OIG
• Collect details of suspected activity
• When making your report, try to identify:
  – Who  – When  – How
• Do not discuss your suspicions with others
• Do not investigate on your own!
WHERE TO REPORT (DOI)

Web:  http://www.doioig.gov/hotline

Mail:  U.S. Department of the Interior
       Office of Inspector General
       Attn: Fraud Hotline
       1849 C Street NW - Mail Stop 4428
       Washington, D.C. 20240

Phone Hotline: Toll Free 1-800-424-5081
               (in Washington DC area: 202-208-5300)
QUESTIONS?