

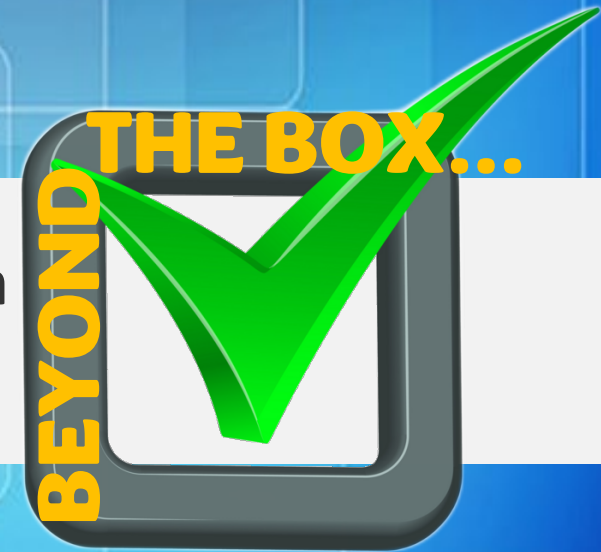


2024 National Association for State Community Services Programs Annual Training Conference

Fraud, Waste and Abuse in the Weatherization Assistance Program

Ray Judy, DOE Technical Project Officer Supervisor

September 16 – 20 | Renasant Convention Center | Memphis, TN



TURNING
POSSIBILITIES
INTO REALITIES



SCEP

STATE & COMMUNITY ENERGY PROGRAMS

Fraud, Waste and Abuse in the Weatherization Assistance Program

Ray Judy

DOE Technical Project Officer Supervisor



Session Goals

01

Define Fraud, Waste
& Abuse

02

Define Internal
Controls & Assign
Responsibility

03

Dealing with the
Aftermath

Why Do We Need to Talk About Fraud?



- Is fraud in Weatherization easily detectable?
- Have you seen it before?
- Do you think you would be able to recognize it?
- How can you recognize the person capable of committing fraud?

Fraud, Waste and Abuse



Fraud – An intentional deception that violates a law or the public trust for personal benefit or the benefit of others.



Waste – Behavior involving the extravagant, careless, or needless use of government funds, property, and/or personnel.



Abuse – Behavior involving the use of government funds or property that a prudent person would not consider reasonable and necessary business practice given the facts and circumstances.

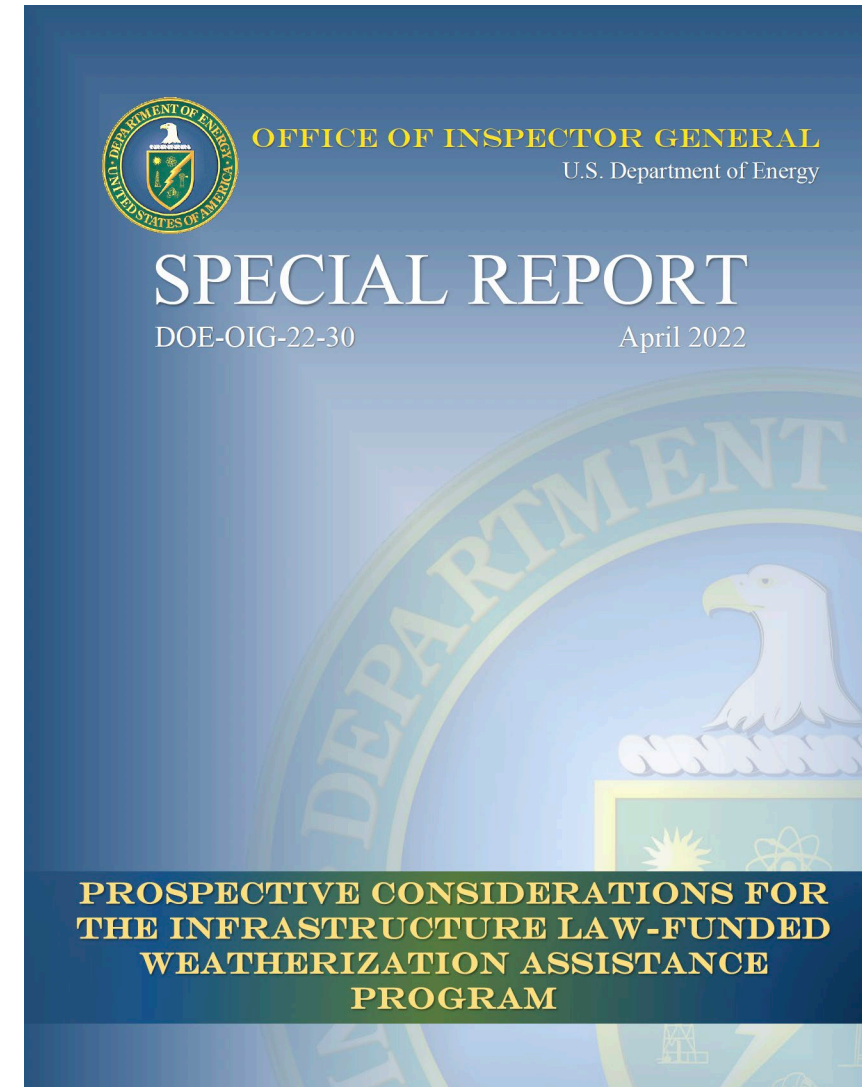
Talking Points – Office of Inspector General (OIG)

- The OIG reached out to DOE early in BIL funding availability
 - What do you think they wanted to see?
- DOE routinely notified of investigations happening within the WAP
- Will BIL mimic ARRA?

Office of Inspector General (OIG) Report Summary

From the **OIG Special Report**,
April 2022, the five broad areas
of concern were:

- Senior Leader Fraud
- Controls Over Acceptance of Work
- Compliance with Terms and Conditions
- Grantee-Level Oversight Issues
- Administrative Remedies



OIG Results – ARRA

- We examined 15 completed investigations that resulted in investigative outcomes, including **7** criminal convictions, **20** persons excluded from Federal Government contracting, and over **\$2.25 million recovered**.
- In the majority of these cases, the subject was either an executive at a Community Action Agencies (CAA) or the owner of a subcontractor.
- **The facts and circumstances in these cases demonstrate the need for more rigorous oversight over the senior leadership of CAAs.**

Articles of Fraud During ARRA

- [News - Fraud Rampant in Obama Weatherization Program | Heartland Institute](#)
- [Weatherization--More Money, Blowin' in the Wind | Citizens ... \(cagw.org\)](#)
- [Energy Dept. weatherization programs rife with waste ... \(dailycaller.com\)](#)
- [Obama's Chicago pals get rich off of his fraud-ridden ... \(americanthinker.com\)](#)
- [Lake Ann man embezzles \\$300k from low-income assistance program | Local News | record-eagle.com \(record-eagle.com\)](#)
- [DOE-OIG-22-30.pdf \(energy.gov\)](#)

Controlling the Risk



- **Three risk areas**
 - People, money & opportunity
 - To some degree, the only thing we can limit or attempt to control is opportunity
- **Ray's Reasoning**
 - You either have had, do now, or will hire in the future, a person willing to commit fraud if given the proper set of circumstances and opportunity to do so
- **Trust BUT Verify**

Red Flags of Potential Fraud

- Complaints or tips from other funding agencies, recipient employees, ex-employees, competing recipients, or others.
- Poor or nonexistent recipient internal controls.
- Evidence of undisclosed related party transactions.
- Illogical or unsupported use of consultants or other vendors.
- Anticompetitive practices by suppliers and other vendors.
- Recipients who are unresponsive to requests for supporting documentation or other information, or who appear to not be making expected programmatic progress.

Red Flags of Potential Fraud

- Illogical draw down patterns.
- Significant findings in a Single Audit Act, OIG, or other audit report.
- Anomalies or other information related to the integrity of a recipient employee or recipient agency.
- High turnover of recipient programmatic or financial staff.
- Inconsistent or inaccurate financial reports or narrative progress reports or updates.
- Recipients that lack the capacity, knowledge, or background to properly manage funds or their programs.

Types of Fraud

- Three most common types of fraud
 - Lying
 - Cheating
 - Stealing

Lying

- Individuals and entities that choose to participate in federal programs are obligated to tell the truth at every stage in the process, from an application, to claims for payment, explanations of how they used funds, the products, or services they delivered, their adherence to terms and conditions, and other assertions and promises.

Cheating

- Federal employees are prohibited from engaging in unethical behavior; and grantees, contractors, and loan recipients are prohibited from corrupting or attempting to corrupt federal employees. Recipients of contracts, grants and cooperative agreements are also bound by provisions regarding related party transactions and disclosures of actual or potential conflicts of interest.

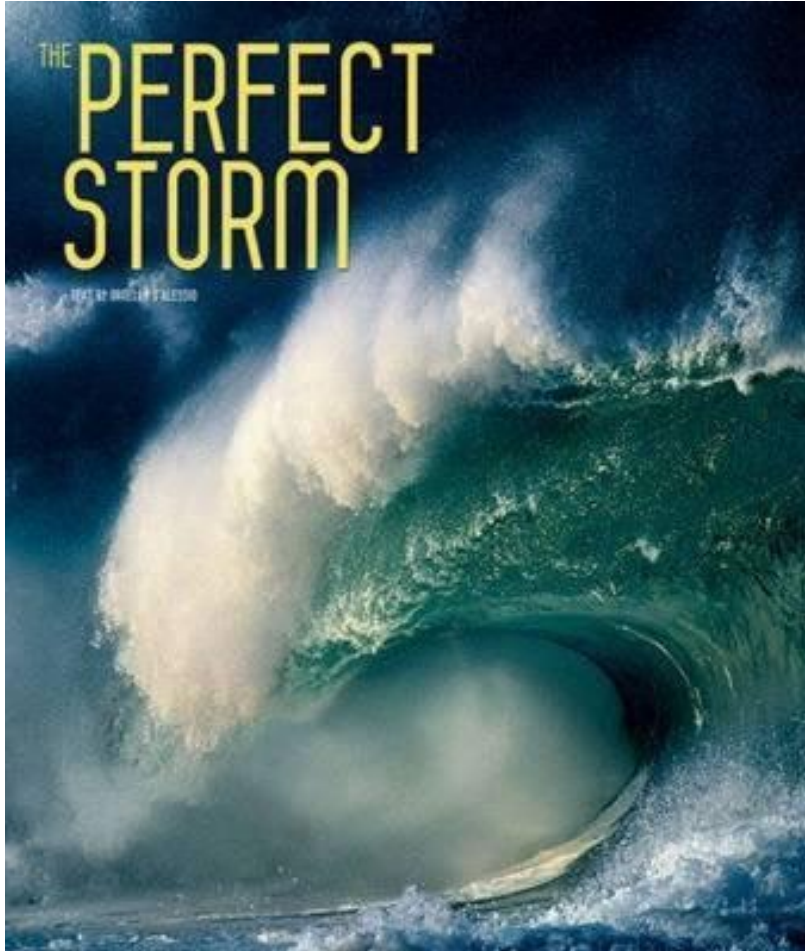
Stealing

- Theft is the most common fraud issue in almost all organizations—including the Department and those that receive Department funds. Theft schemes can involve payroll manipulation, misuse of government purchase cards or commercial credit cards, falsified accounting records, corruption, forged timesheets or other documents, or sham entities such as a subcontractor or ghost employee.

OIG Results – ARRA

- Example 1
 - CAA Executive Director formed shell company with a relative
 - Invoiced for work not performed at addresses that didn't exist
 - Manipulated households to qualify for WAP services
 - Pleaded guilty to embezzlement of \$916,000
 - Time in federal prison
 - Ordered to pay restitution of \$916,000

Learn From The Past



Things to keep in mind

- Bad people willingly do bad things
- Large amounts of funding breed opportunity for bad things to happen
- Assuming you are prepared is not enough
- Monitoring is extremely important
- Stewardship is imperative
- **FEDERAL FUNDS!!!**

Examples of Fraud

OIG Results – ARRA

- Example 2
 - \$50,000 embezzled
 - Repairs on personal rental property
 - Credit card purchases
 - False documentation related to performed repairs
 - Theft by an organization overseeing federal funds
 - Results
 - 5 years probation
 - Home confinement
 - Restitution of \$50,000
 - Fine of \$10,000

OIG Results - ARRA

- Example 3
 - Kickbacks from WAP contractor
 - Lied to OIG during investigation
 - Prices set for WAP work avoiding open competition
 - False invoices for incomplete work
 - Improperly comingling funds
 - Bribery & false statements
 - Auditor pled guilty
 - 1 year home confinement
 - 2 years probation
 - 400 hours of community service

OIG Results – ARRA

- Example 4
 - Development of shell company
 - Invoicing for WAP equipment – never purchased
 - Had finance give payments directly to WAP Manager
 - Did not pay taxes on ill obtain financial gain
 - Sentenced to 41 months in federal prison
 - 2 years of supervised release
 - Restitution in the amount of \$431,828
 - \$200 special assessment fee
 - We will talk through this example in more detail

OIG Examples – Conflicts of Interest

A former Executive Director of a Community Action Agency embezzled at least \$50,000 in federal weatherization funds and spent them to make repairs and upgrades to a rental property she owned as well as to pay for credit card purchases. The former Executive Director also created false documentation purporting to represent two low-income housing properties and invoiced these repairs to the government.

(Source: [Press Release, U.S. Attorney's Office for the Southern District of Florida, January 17, 2020](#))

OIG Examples – Theft

A former manager at a Community Action Agency stole over \$300,000 of DOE weatherization funding by submitting fraudulent invoices. The manager then diverted the funds for personal use. He was sentenced to 41 months imprisonment, ordered to pay \$431,828 in restitution, and was debarred for 3 years.

(Source: [DOE OIG Semiannual Report for period ending September 30, 2020](#) Page 31)

Red Flags of Fraud

- Unresponsiveness to government requests for information including support for claims or evidence of an activity.
- Inconsistent responses to the same question about a claim, process, compliance issue, project status, accounting treatment, etc.
- Any indication that false, altered, or misleading information or other data was provided to the government.
- Concerns that an entity or individual is “working around” regulations, internal controls, or expected norms.
- Evidence that individuals are living beyond their means, high staff turnover, or untrained or incompetent key personnel.

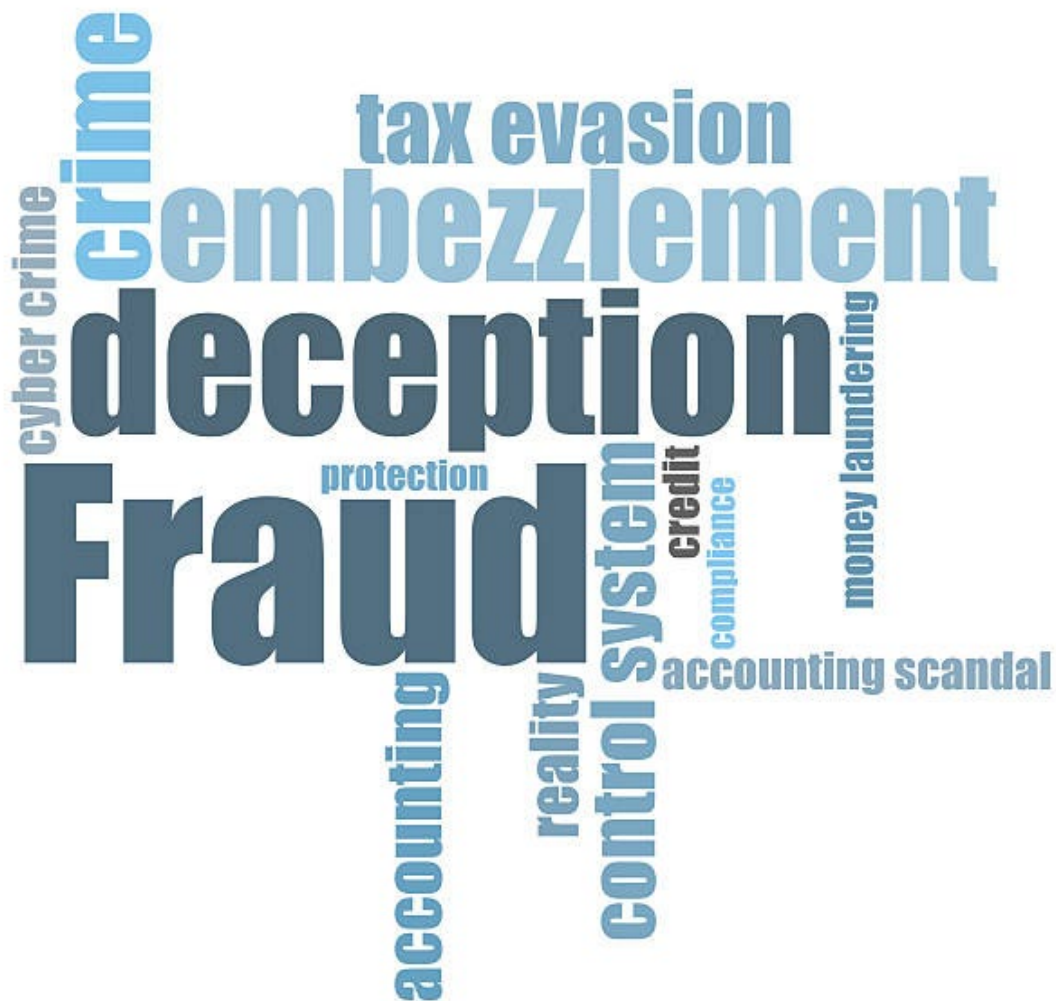
Mitigating Risks

- There are numerous ways Department program managers and others can mitigate fraud risks, including:
- Considering fraud risks during program planning and implementation: Where and how could someone take advantage of this program?
- Implementing specific fraud prevention strategies including educating other Department staff, grantees, and vendors, about the risks. The more people are aware of the issues, the more they can help prevent problems or detect them as early as possible.
- Determining which internal controls could help prevent or identify the most likely schemes, such as independently verifying that an applicant meets a required criteria or reviewing an invoice to ensure it is consistent with the contract.
- Maintaining a well-designed and tested system of internal controls.
- Reporting concerns about fraud, waste, and abuse to the OIG.



Who Commits Fraud?

Unfortunate Truth



“Corruption, embezzlement, fraud, these are all characteristics which exist everywhere. It is regrettably the way human nature functions, whether we like it or not. What successful economies do is keep it to a minimum. No one has ever eliminated any of that stuff.”

[Alan Greenspan](#)

Fraudster Characteristics

Radiates Trust



Even after talking to a dozen different white-collar criminals, I was still impressed at how unbelievably courteous and charming they are. It is these traits which **enable fraudsters to win the trust and empathy of those around them with playful ease**. To a certain extent, this character trait prevents those around them from objective assessments.



This dangerous ability creates the perfect breeding ground for fraud. Controls, for example, are neglected. As a head fraud investigator, I often hear people say, **"I thought this employee was a person of complete integrity. Of all people, he was the one I would have believed least likely of committing such an offence."**

Point of View

- White Collar Criminal Approaches
 - The **white-collar criminal** sees himself as the victim of unfortunate circumstances. Fraudsters of this type tell me they were under enormous pressure. They explain their fraudulent behavior as their attempt to resolve an insoluble problem. Under normal circumstances, this profile of a fraudster is an exemplary employee who follows rules to the letter and would never hurt anybody. As a result, those around him are surprised and even shocked at his fraudulent behavior.

White Collar Criminal



White Collar Criminal Characteristics

- Impeccable reputation
- Abuse of professional position
- Above-average level of education and creativity
- Criminal energy is not discernible
- Can come from any area of expertise, independent of sector
- Has been working for the company for more than five years

Pin Stripped Predator



The **pin-striped predator** consciously seeks and patiently awaits opportunities to commit fraud. Such a person is remarkably disciplined and focused and translates his visions into action. His belligerent attitude makes him an opponent who needs to be taken seriously. With playful ease, he manipulates his superiors, public accountants and any regulatory bodies who have little experience in fraud. He is extremely skilled in organizing complex techniques for evading discovery. To create confusion and uncertainty in an impending investigation, he creates false leads in advance to throw others off the scent.

The Hedonistic Narcissist



The **hedonistic narcissist** has an exaggerated opinion of himself, is arrogant, and is not open to criticism. He commits fraud because he is convinced, he is so uniquely clever that he'll never get caught. Stuck in a groove, this profile of a fraudster loses all grip on reality regarding money. His sense of entitlement is obsessive. However, financial considerations are not his sole motive. He also enjoys the cat-and-mouse game, demonstrating his superiority and getting an adrenalin rush. For such a person, the chase to win admiration is exciting – and never-ending.

The Gullible Victim



The **gullible victim** regards himself as a social creature. In the eyes of the fraudster, he is being exploited by profiteers. Offenders of this type do not actively search for opportunities to commit fraud. But to maintain a relationship, or to revenge themselves for a disappointment, they are willing to commit serious economic crimes. Such persons will engage in fraudulent behavior for a higher purpose, or to overcome separation anxieties.

“Obviously, people lie when they’re trying to hide something. I did it too.”

Statement by a fraudster | personal interview

General Fraud Facts



90% of Fraudsters are first-time offenders with clean records



40 – 60% of businesses **never** recover any fraud related losses



Statistics show that the average occupational case of fraud is active for 18 months before it's detected

Trust But Verify

- MANY LEADERS BELIEVE THEY'D FEEL IT IN THEIR GUT IF SOMETHING WERE AMISS
- MANY NONPROFITS BELIEVE **THEY'RE IMMUNE TO FRAUD** BECAUSE THEY HAVE STRONG CORE VALUES
- ONE KEY BEST PRACTICE...
NEVER BUILD A SYSTEM OF INTERNAL CONTROLS BASED ON TRUST.

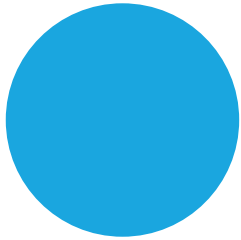


Human Factor Warning Signs

Possible fraudulent act triggers of a White-Collar Criminal:

- Personal debt
- Medical bills
- A spouse losing a job
- An ailing parent moving in
- Drug or alcohol use
- Gambling
- An inability to control spending

White Criminal Red Flags



Living beyond means



Financial difficulties



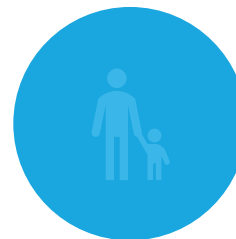
Unusually close association with a vendor or customer



Wheeler-dealer attitude



Control issues, unwilling to share duties



Divorce/family issues

“You can write the best manuals and draw up the best work processes – but if something is urgent, and in emergencies, things never run to plan.”

Statement by a fraudster | personal interview

Characteristics of Fraudsters

42%
staff-level employees
36%
mid-level managers

55%
worked alone in
committing their scheme

52%
were between the ages of
31 and 45.

Two-thirds were
male

47%
had worked for the victim
organization for less than
six years

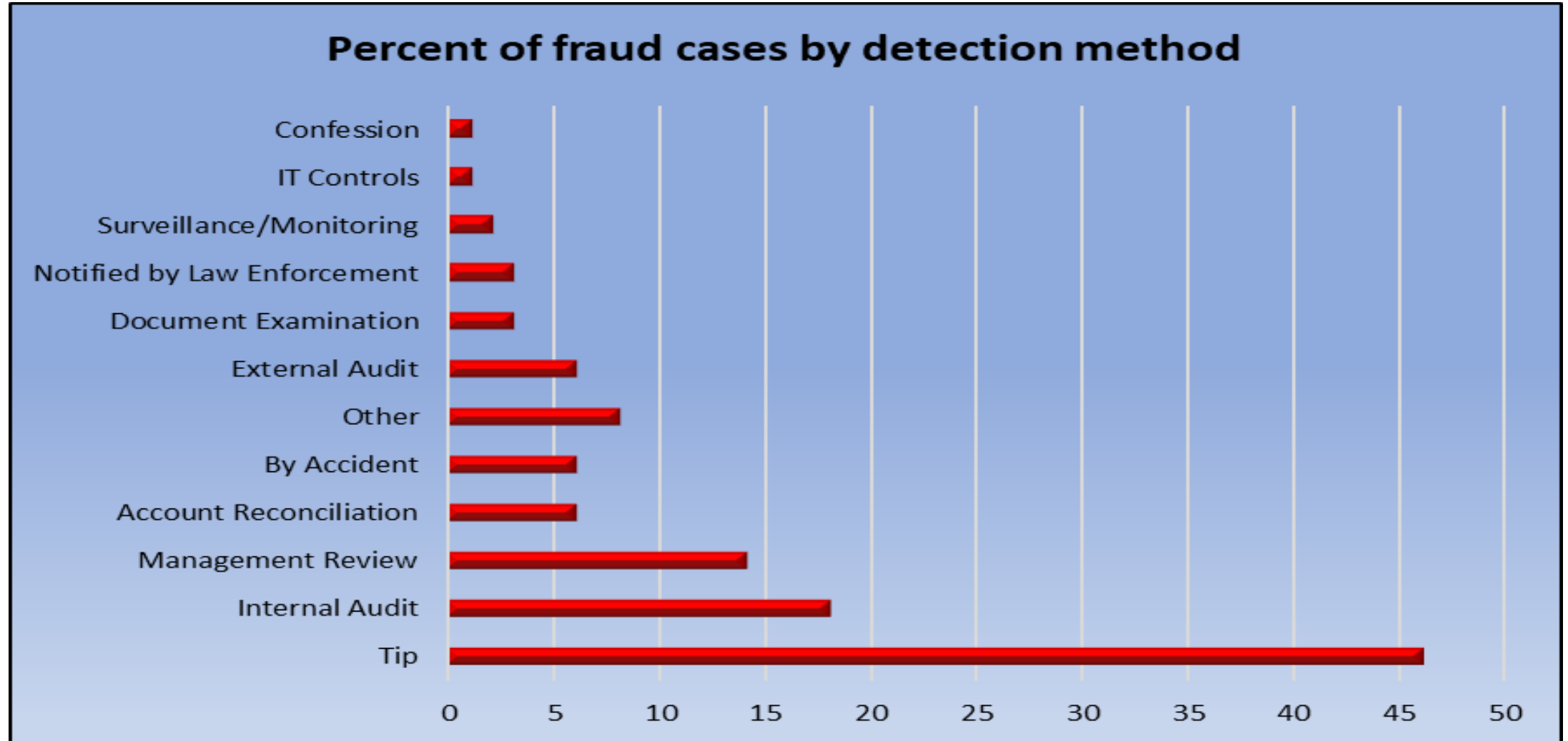
72%
had at least some
university education

45% worked in the
accounting, primary
operations, or sales at the
victim organization

87% were first-time
offenders with no criminal
history of fraudulent
behavior

44%
were known to be living
beyond their means

How Are Fraudsters Caught?



Internal Controls

What Are Internal Controls

Plan



Train



Implement



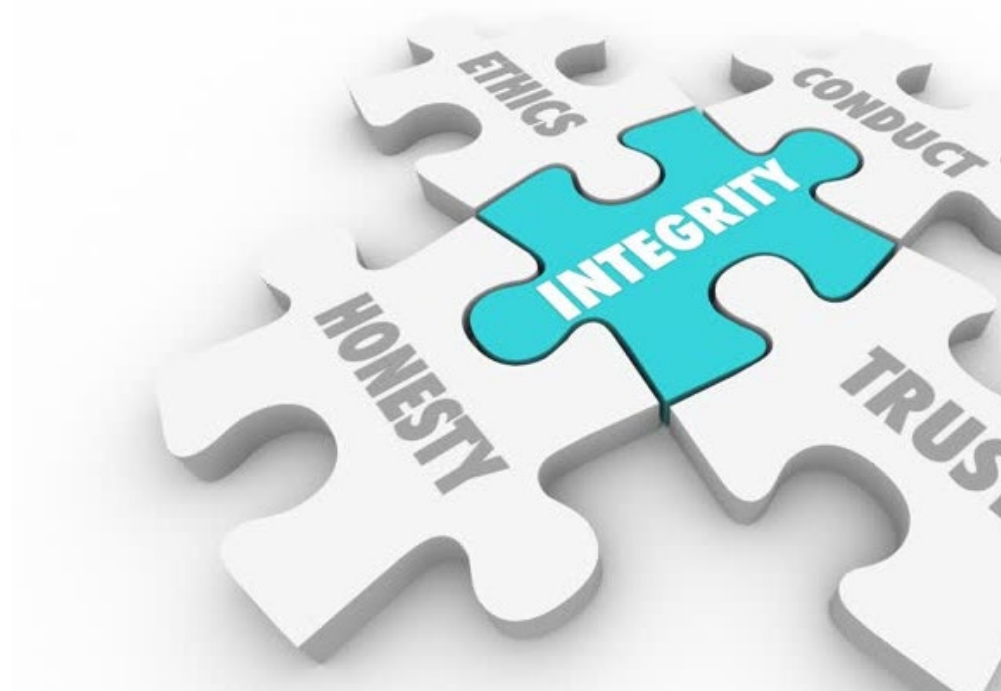
Check



- **Internal control** is a process for assuring achievement of an organization's objectives in
 - operational effectiveness and efficiency,
 - reliable financial reporting, and
 - compliance with laws, regulations and policies.
- A broad concept, internal control involves everything that controls risks to an organization.

What Are Internal Controls?

- Internal controls are mechanisms, rules and procedures implemented by an agency to **ensure** the integrity of financial and accounting information, promote accountability and prevent fraud.



Benefits of Internal Controls

- Defining roles and responsibilities
- Improving efficiency in certain operations
- Protection from fraud
- Establishing integrity
- Ensuring compliance with law or policy
- **Controlling opportunity for things to go bad**



Internal Controls

Financial Controls – Financial controls adopts an accounting standard and segregation of duties

IT Controls – Controls related to IT operations and information security. (adding users/permissions to systems)

Project Controls – Control of projects using project management, risk management, and project governance processes

Risk Control – The process of identifying and controlling risk

Compliance Control – Controls that are directly related to compliance

Safety Controls – Safety controls in warehouse, food preparation kitchens, and weatherization work

Human Resources Control – Controls related to employee performance and culture.
Example – process for employee performance reviews and disciplinary policies

Operational Control – Controls related to an agency's processes such as a process of reporting results to leaders and board

Quality Control – The testing of services to ensure conformance to specifications and policy

Examples of Separation of Duties

- **Vendor Maintenance and Posting Invoices** – Separation of creating vendors in a system from posting and paying invoices. Helps to prevent fictitious vendors/customers with fictitious invoices
- **Purchase Orders and Approvals** – Purchase orders typically require multiple approvals
- **Payment and Bank Reconciliation** – Making payments to vendors and reconciliation of bank statements
- **Paychecks and Bank Reconciliation** – Paying employees and back reconciliation
- **Journal Entry and Approvals** – Separation of entering a journal entry and approval of journal entries

Is This Your Warehouse?

- Inventory
 - Who maintains list of items?
 - Who verifies and reconciles the inventory and how often is it performed?
 - Huge issue for crew-based agencies
- Purchasing and procurement
 - Who receives credit cards and gas cards?

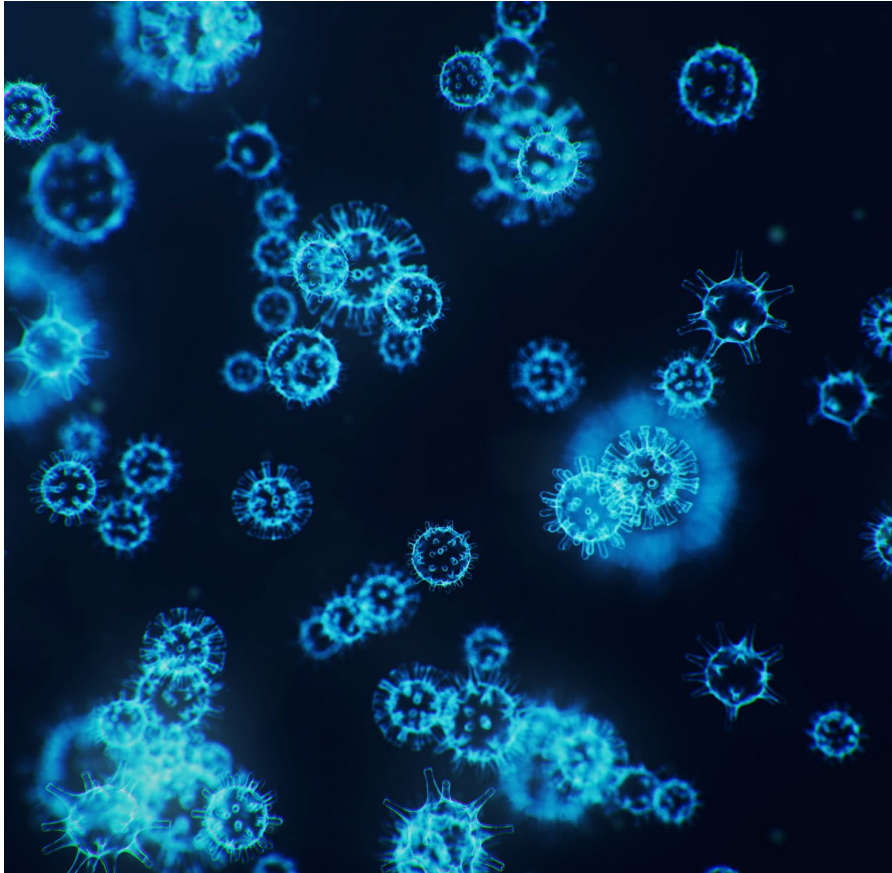


Did You Really Attend That Conference?

- Paying contractor and material invoices
 - Separation of duties in payment request and approval
- Mileage and per diem
 - Approved by management every time
 - Provide agenda from conference
- Weatherization database
 - Who, what, when, where, etc.
 - Who is responsible for each measure, assigning funding, etc.



Control Environment



Control Environment is the agency's attitude toward internal controls necessary for effective internal control, because even the best-designed systems can be thwarted if management overrides the controls that are in place.

Trust that overrides the internal control is the same as not having the internal control in place.

Questions for You to Consider

- Where do you think your organization is most vulnerable?
- Do you have internal controls in place at your organization?
- If yes, are they being followed?
- If yes, how do you know?
- How are you testing your internal controls?
- How strong are your internal controls?



Possible Fraud Occurrences

Check fraud

Skimming

Misusing
donations

Misusing
restricted
funds

Credit card
abuse

Expense
fraud

Kickbacks

Ghost
employees

Billing
schemes

Stealing Cash

Red Flag

- Cash donations to your WAP that are handled/recorded by only one person



Check Fraud

Definition

- Stealing checks and writing to oneself
- Duplicating an actual check using computer software
- Endorsing a check that is not made out to them

Red Flag

- WAP Manager having access to blank agency checks
- WAP Manager requesting to deliver check to vendor, alters amount of check, the accepts check from vendor for overpayment



Misusing Restricted Funds

- Description
 - Reporting inaccurate data, fraudulent statements to funders, misclassifying expenses, financial statement fraud
- Example
 - Inflating number of completions so that production numbers match monthly spending amounts
 - Adding more measures to the Work Order after the job is completed
 - Increasing the labor costs for some jobs
 - Increasing other miscellaneous costs



Credit Card Abuse

- Description
 - Gas card used for personal use, purchase of tools/equipment for personal use
- Example
 - Business credit card used for personal items mixed with items for actual WAP jobs
 - Receipts labeled “tools” or “office” and charged to the grant



Expense Fraud

- Description
 - False reporting of mileage, per diem
- Example
 - Doubling the mileage to/from an inspection
 - Fabricating in-progress inspections to receive mileage
 - Adding extra days to meetings/conferences out of town



Kickbacks

- Description
 - Unlawful payments to employee for favorable treatment or more frequent selection; bribery
- Example
 - Bonus payments to WAP Manager for contractor preference
 - Selecting one contractor over another by awarding a higher percentage of jobs



Ghost Employment

- Description
 - Payments to terminated staff or payment for hours not worked
- Example
 - Changing the account number to deposit into a different account
 - Creating a fake crew member and cashing the paychecks
 - Inflating the number of hours worked by not requesting time off
 - No daily log or check-in to verify whereabouts

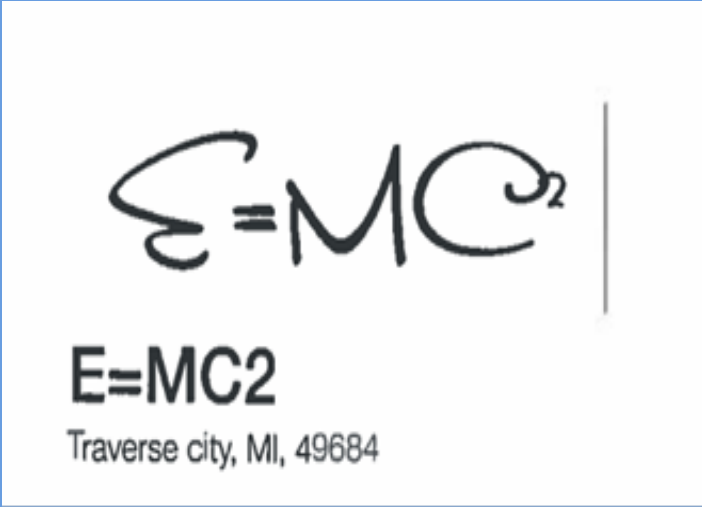
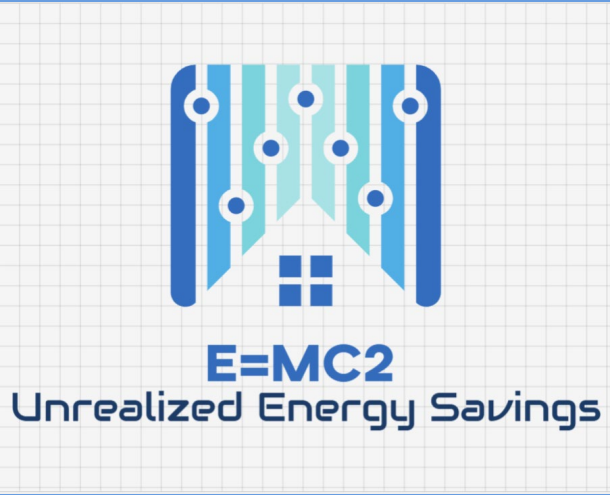
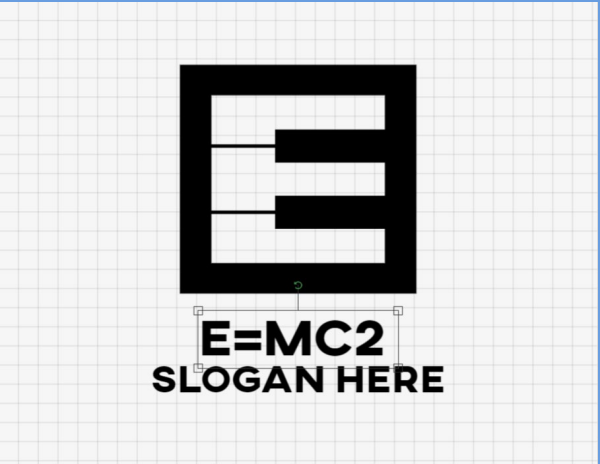


The Impact of Fraud

Shell Company

- Description
 - Billing schemes most common form
- Example
 - Creating fake supply company for WAP materials
 - Creating fake invoices with items that appear to WAP related so that they could pass for real purchases
 - Using the fake vendor to invoice for multiple, identical measures
 - Using real and false job numbers that can or cannot be connected to actual jobs
 - Payments handed directly to WAP Manager

Easy to Create Logos



The Difficulty of Surviving



Surviving More Difficult Than You Might Think

- Are you prepared to invest the time and resources to see this through?
 - Discovered evidence such as receipts, missing tools, etc.
 - Shell company located by matching home address
 - US Attorney General, IRS, Sheriff's Department, FBI, DOE (WAP & OIG) and WAP Grantee involved
 - Sentencing took place in federal court
 - 16 months from reporting of fraud to sentencing
 - Unable to inform staff what is happening
 - Fear for personal safety



Could Your Organization Survive

- Check this list
 - Reimburse the Grantee for stolen DOE & LIHEAP funds
 - Incurred substantial legal fees
 - **Crime insurance premium rose from \$256.00 annually to \$7,300.00 annually, or 2,752%**
 - **Became high risk audit organization resulting in decreased funding along with increased scrutiny**
 - Negative press
 - Concerned community members and clients



What happened?

- Situation summary
 - Stopped stealing before leaving agency
 - Discovered after the fraudster left the agency
 - Served time in federal prison
 - Responsible for restitution and fines
 - **What keeps him from working in the WAP?**



Closing Thoughts

2 CFR 200.113 – Mandatory Disclosure

- “The non-Federal entity or applicant for a Federal award must disclose, in a timely manner, in writing to the Federal awarding agency or pass-through entity all violations of Federal criminal law involving fraud, bribery, or gratuity violations potentially affecting the Federal award”
- Failure to make required disclosures can result in suspension and debarment or other administrative actions.
- Source: [5 CFR Part 200.113](#)

What do we really know?

1. There is a risk that some will commit fraud or otherwise misuse DOE resources
2. We all play an important role in helping to prevent, deter, and flag these issues
3. **Keys to success: Exercise professional skepticism and report any and all concerns to the OIG**

Reporting Suspected Fraud, Waste or Abuse:



Phone: (800) 541-1625 or (202) 586-4073



Email: ighotline@hq.doe.gov



Postal Mail: U.S. Department of Energy

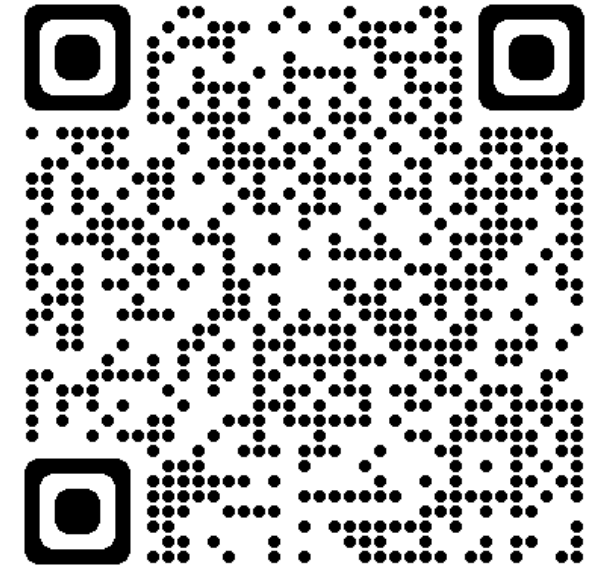
Office of Inspector General

ATTN: Hotline

1000 Independence Avenue, SW

Mail Stop 5A-235

Washington, DC 20585



IG Hotline Website

<https://www.energy.gov/ig/ig-hotline>



Questions, thoughts or feedback?

Thank you!



ray.judy@hq.doe.gov



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**CONTINUING
EDUCATION**

1.25 BPI CEUs - Fraud, Waste, and Abuse in the Weatherization Assistance Program



We want to hear from you!

Your feedback helps to
make these conferences
great.

Please take a minute to fill
out the evaluation for this
session.

