

Fraud Guardrails for Your Grant Program

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Agenda

Case Study: Feeding Our Future

The Scheme
The Non-Profit
The Red Flags
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The Result
Compromised Controls
Key Federal Reforms

The Oversight Continuum

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About our Firm



The Scheme

- \$250 million theft of Federal funds designed to provide meals to children during the COVID-19 pandemic.
- 75 charged; 55+ convictions at trial or guilty pleas.
- Money used for lavish lifestyles, cars, boats, home mortgages, jewelry, and more.

Case Study: Feeding Our Future



The majority of the lost funds were *not recoverable*.

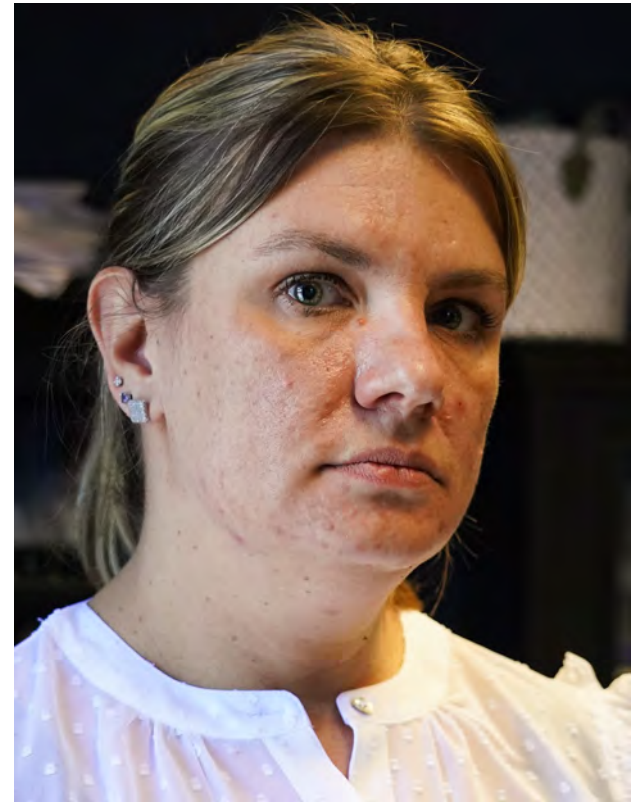
Tens of millions of taxpayer dollars were sent to Somalia and spent on investments in China, Kenya, and Türkiye.



Case Study: Feeding Our Future

The Non-Profit

- Feeding Our Future: non-profit run by Aimee Bock overseeing more than 2,000 reported feeding sites.
- Facilitated and received kickbacks from a network of fraudulent organizations and programs.
- Programs created fabricated invoices, inflated meal counts, and fake attendance rosters of children.

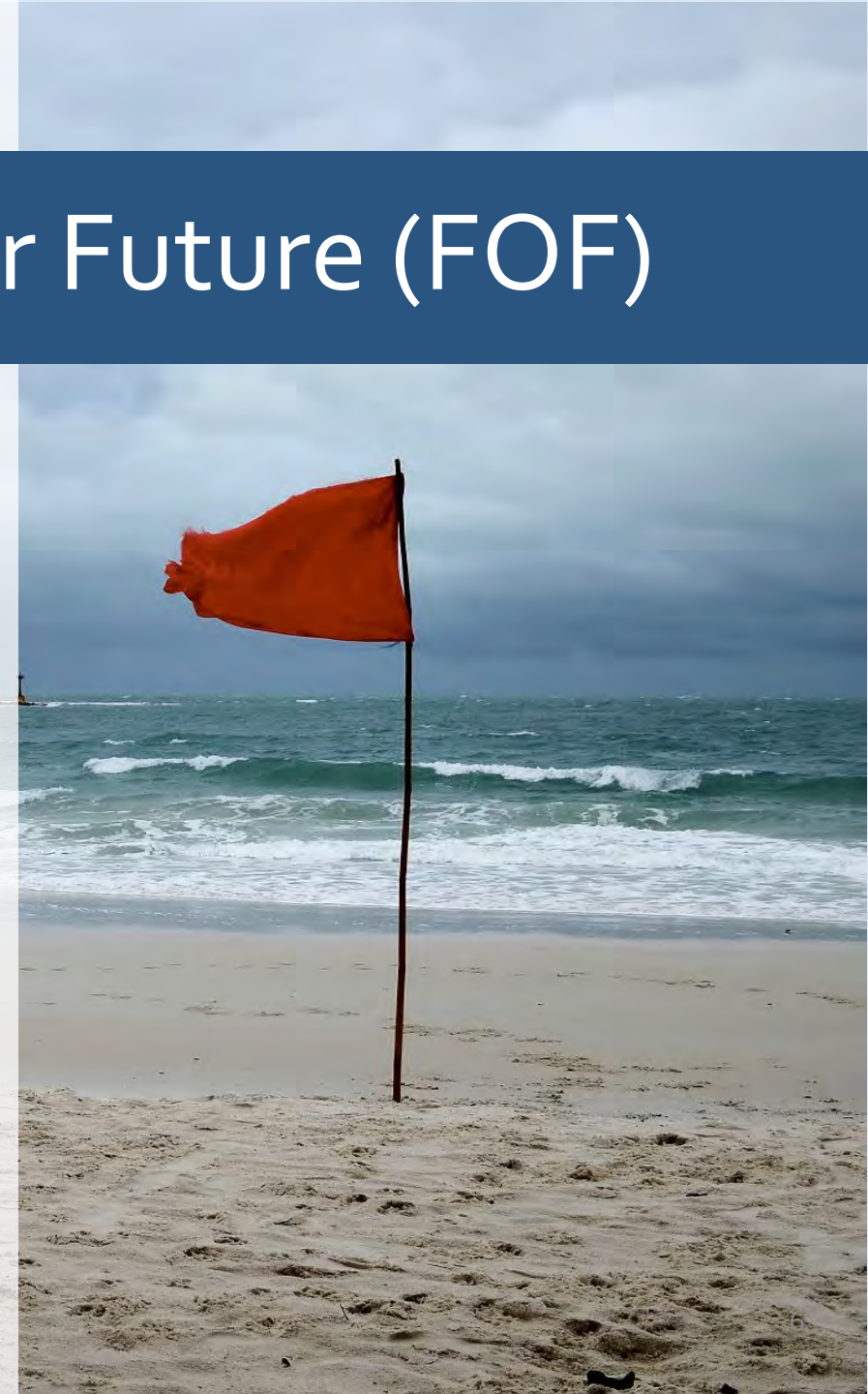


Aimee Bock

Photo by Shari L. Gross,
The Minnesota Star Tribune

The Red Flags about Feeding Our Future (FOF)

- Grew from **\$2.4 million*** in Federal funds in 2019 to **nearly \$200 million** in 2021.
- No capacity to handle that level of growth.
- At least 30 complaints between 2018 and 2021, including allegations of:
 - o Unethical recruitment of food sites.
 - o Operating sites without permission.
 - o Haphazard food distribution.
 - o Demanding kickbacks from vendors.
- Non-profit tax status revoked by the IRS in February 2020.



The Red Flags about FOF Management

Unrealistic Data Patterns in Reimbursement Claims

Storefront Deli: Claimed to serve 3,000 children a day, seven days a week.

Restaurant: Claimed to serve 5,000 children per day, seven days a week, shortly after enrolling in the program. Ultimately claimed to have served more than 3.9 million meals in a year and a half.

High Claims in Low Population Areas: A meal site in a town of 2,500 allegedly submitted fraudulent claims for 2,560 people.

Source: Minnesota Department of Education: Oversight of Feeding our Future, Special Review, June 2024, Office of the Legislative Auditor, State of Minnesota.

The Feeding Our Future Fraud Key Failure Points

Inadequate Program Infrastructure

The Minnesota Department of Education (MDE):

- Was "ill-prepared to handle" the burgeoning fraud.
- Lacked clear, detailed, or updated policies and procedures for:
 - o Application reviews.
 - o Checks of submitted claims.
 - o Meal disallowances.
 - o Non-compliance citations.
 - o Independent monitoring of sites.
 - o Complaint investigation—investigative steps, prioritization, documentation, etc.

Source: Minnesota Department of Education: Oversight of Feeding our Future, Special Review, June 2024, Office of the Legislative Auditor, State of Minnesota.



Insufficient and Inadequately Trained Personnel

The Minnesota Department of Education:

- Lacked dedicated financial or accounting staff despite its massive size.
- Lacked trained investigative staff.
- Relied on child nutrition program staff to investigate allegations of fraud, waste, and abuse.
- Lacked a general counsel until January 2022 to advise the department on legal interpretation and policy changes.

Inadequate Investigations and Data Analytics

The Minnesota Department of Education failed to investigate indicators of the alleged fraud, such as implausible meal count patterns and missing or incomplete documentation.

Two Key Controls Failed

Single Audits | Grants Monitoring



Single Audits

- Audits:
 - o Were accepted despite not meeting Federal audit standards.
 - o Contained mathematical errors and incorrect dates.
 - o Reported that liabilities exceeded assets in 2019.
 - o Showed no salaries, taxes, or benefits allocated to program costs for the Child and Adult Care Food Program (CACFP), the Federal grant program.
- Irregularities were not acted upon.
- Audit firm eventually lost its CPA license. Had provided audits for seven organizations involved in the fraud.

Grants Monitoring

- Provided no documentation of in-person visits to any Feeding Our Future sites during the pandemic.
- MDE conducted on administrative monitoring review in 2018 and noted serious findings.
- Normal checks were relaxed.
- No formal written plan to ensure accountability when using meal-bundling waivers as directed by the USDA. (Monitoring of MDE would have detected this during programmatic reviews.)
- Vander Weele Group *Freedom of Information Act* requests returned no monitoring reviews of FOF other than a self-reported form Aimee Bock filled out.

Site Monitoring (to be completed by sponsor or sponsor monitor)

Monitoring forms are available on the MDE SFSP Monitoring – State Agency and Sponsor webpage.

 x Confirm that monitoring visits/reviews are scheduled. Refer to USDA memo:

COVID-19: Child Nutrition Response #30. This waiver encourages SFSP-sponsoring organizations, to the maximum extent practicable, to continue monitoring activities of program operations offsite (e.g., through a desk audit).

- Pre-operational visit(s) - one for each new site and sites that had operational problems in prior year
 - All done for 9 sites.
- First week visit(s) - one for each new site and sites that had operational problems in prior year
 - Some are done for site operating after school. Will do others when then open.
- Site Review(s) – one for each site in the first four weeks of operation
 - Will do all on-site

Signature of Sponsor Representative/Date:

J Butcher

6.23.20

Consultant/Date: Jenny Butcher, June 23, 2020

Note: Food Service Management Company staff may not conduct monitoring visit/reviews.

Hamstrung by Political and Legal Realities

- Powerful Somali community lashed back, litigating against MDE and accusing it of racism. Argued tens of thousands of children would go without food if its site applications were denied. A judge gave Feeding our Future favorable rulings.
- A 2017 court decision in another case indicated that MDE could not apply its own procedures without authorization in state administrative rules.
- Specifically, financial viability was not specified in Federal regulations and were inconsistent with the U.S. Department of Agriculture's guidance.
- MDE cited lack of USDA guidance and support for its actions.
- MDE notified law enforcement and was told no criminal investigation would be forthcoming.

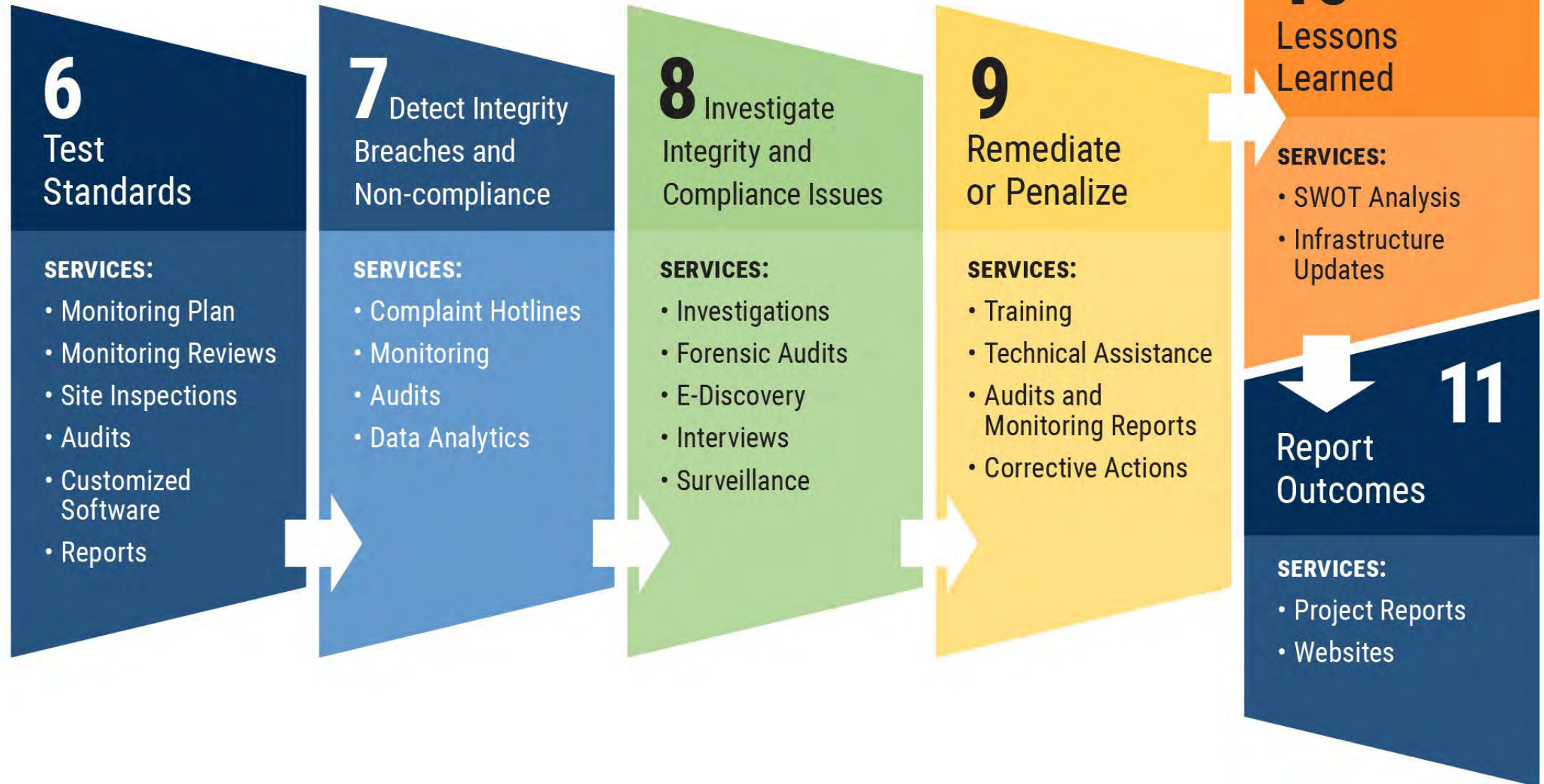
Key Federal Reforms

USDA's Food and Nutrition Service (FNS):

- Created the Office of Program Integrity, dedicated to preventing, detecting, and mitigating fraud, waste, and abuse.
- Created the ability to **impose fines** on states for severe mismanagement, disregard of program requirements, or failure to correct repeated violations.
- Encourages states to move away from a one-size-fits-all monitoring for a risk-based approach.
- Requires state agencies to conduct more robust financial reviews.
- Increases number of reviews, including unannounced visits.

The Oversight Continuum





Guardrails for Program Leadership

1. Identify the Standards

- Build legal, program, and regulatory framework.
- Identify the standards in authorizing legislations, regulations, and program rules.
- Create a compliance matrix mapping each.
- Monitor changes in the Single Audit process, penalties for non-compliance, and eligibility.

2. Identify the Risks

- **Be realistic:** No organization is immune to large-scale risks and integrity challenges. Set a tone at the top.
- **Conduct risk assessments:** Using time-tested traditional risk techniques, combined with artificial intelligence.
- **Integrate AI and data analytics:** Data analytics is integral to multiple points of the grants lifecycle.



DATA ANALYTICS

- Identifies risks through algorithms related to specific fraud schemes.
- Analyzes structured data.
- Requires that algorithms are known in advance.
- Provides precise outcomes.



ARTIFICIAL INTELLIGENCE

- Analyzes both structured and unstructured data.
- Quickly identifies otherwise unknown risks with only general queries.
- Identifies “unusual” patterns without defining “unusual.”
- Does not require specific algorithms used in traditional data analytics.
- Is prone to error and incompleteness—therefore, information must be validated.

Gather traditional risk criteria through interviews and document reviews.

Examples

- Large inflows of new funding or new programs.
- Program type: e.g. high number of beneficiaries, high complexity.
- Prior audit findings/complaints.
- Management inexperienced in grant programs.
- New financial systems.
- Outdated technology.

Use AI to identify new risk patterns and transactions in structured and unstructured data.

Sample Queries

- Identify unusual trends in these documents.
- Identify unusual transactions in these documents.
- Identify anomalies and irregularities in these documents.

Sample Risks from AI-Driven Risk Assessment

- In one program, some recipients earned more than \$1 million in interest income on projects not being built. Others invested grant funds and lost money.
- One hundred percent of a \$299,395 payroll expense was spent on overhead administration—none went into operating the program.
- Single Audits reported the exact same data two years in a row. Dollars did not add up.
- The awarding agency forwarded a grant reimbursement for the precise dollar amount as the grantee's losses on its Profit & Loss statement.
- Year end net assets of -\$13,217 did not match the following year's opening net asset figure of \$101,021.
- During an investigation, shredding costs rose by \$3,448.46.
- A series of payroll charges appeared in small increments of 16 cents.

3. Build Risk Awareness

- **Provide training:** Train in program risks, red flags of fraud, types of common fraud schemes, characteristics of fraudsters and consequences for not ensuring proper oversight.
- **Communicate through other means:** Provide fraud awareness through websites, newsletters, and social media.

4. Develop Program Infrastructure

- Build policies and procedures for internal controls, financial management, grantee vetting, application management, fund distribution, ethics, and more.
- Map process flow.
- Identify and build required internal controls.
- Map resources against program requirements.
 - Gauge both capacity and capability.

5. Communicate Standards

- Communicate policies and procedures to program staff and grantees through training, webinars, websites, and social media.
- Reinforce through technical assistance.



6. Test the Standards

- Ensure Single Audits are in place.
- Establish monitoring program.
- Create thorough processes for reimbursements.



Ensure that:

- Each program, function, or activity is monitored, as the Uniform Guidance requires.
- Your agency has a formal monitoring plan that aims to prevent risk.
- Monitoring reviews include both fiscal and programmatic/performance measurements.
- Monitoring reviews include an analysis of internal controls and risk of fraud.
- There is a means to ensure that corrective action is taken.
- The monitoring team is multi-disciplinary, with program, fiscal, and fraud experience.
- Monitoring is conducted by an independent entity (optional).

Monitoring Program

7. Detect Integrity Breaches

- Use data analytics to detect unusual expenditures in large data sets.
- Ensure hotline posters are available on grantees' premises.
- Use AI to detect unusual trends and transactions in audits, financial and programmatic reports, and other grantee documentation.

8. Investigate Integrity and Compliance Matters

- Ensure escalation procedures are in place, with mandatory reporting.
- Ensure monitors understand basic criminal procedure so as not to “taint” the evidence.
- Clearly identify who investigates integrity breaches.
- Ensure individuals conducting investigations are trained in interview techniques, evidence collection and documentation, chain-of-custody preservation, information security protocols, forensic auditing, e-discovery, elements of a crime, and so forth.

9. Remediate or Penalize

- Thoughtfully create rubrics linking findings of non-compliance with a series of escalating repercussions.
- Identify opportunities for training and technical assistance.
- Seek recoveries or civil or criminal litigation, as necessary.
- Initiate debarment procedures, if warranted.



10. Capture Lessons Learned

- Aggregate findings, update and retool:
 - o Policies
 - o Procedures
 - o Contracts
 - o Training
 - o Resources
 - o Consequences



11. Report Outcomes

- Provide required reporting.
- Highlight incidences of non-compliance to internal and external stakeholders.
- Aggregate grantee feedback on systemic challenges.
- Highlight best practices and report successes.

Guardrails for Political Leadership



Political Leadership

Prioritize independent fact-finding: Segregate monitoring from program management. This can be codified in law, regulation, program rules, or grant contracts.

Sample language:

“Monitoring by the non-Federal entity must cover each program, function or activity, ***conducted by an independent entity, unit or function not within the chain of command or engaged by program management for each grant provided the non-Federal entity that exceeds \$10 million.***”

² § CFR 200.329(a), [Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards](#)

Political Leadership

- **Ensure key compliance positions are in place:**
inspectors general, chief accountability officers,
and general counsels for compliance.
- **Create quality control mechanisms for the
“watchdogs.”**
- **Mandate reporting and escalation procedures:**
i.e., mandatory reporting of suspected or actual
instances of fraud, escalation of incidents,
follow-up on findings, hotline reporting.

Political Leadership

- **Create independent integrity monitor programs.** These provide specialized expertise to flag waste, fraud, and abuse in real-time but also to help build in-house compliance controls for programs above a certain threshold. (In New Jersey, that threshold is \$20 million.)
- For compromised entities “too big” to remove, the entity can pay for mandate costs.
- Typical scope:
 - o Financial oversight.
 - o Compliance monitoring.
 - o Investigations.
 - o Risk assessments.
 - o Monitoring and auditing.
 - o Development of program infrastructure.

Political Leadership

- Give agencies authority to make rules.
- Ensure agencies know they can establish criteria to determine what organizations can be approved.

“The Minnesota Department of Education believed it did not have the legal authority to codify special criteria for approving Child and Adult Care Food Program (CACFP) and Summer Food Service Program (SFSP) sponsors, despite a 2017 court decision that encouraged it to adopt rules. This left MDE ill-prepared to address the issues—which included litigation by Feeding our Future—that it later encountered with Feeding Our Future.”

— Minnesota Legislative Auditor Judy Randall

Political Leadership

- **Support resources for program infrastructure.** In budgeting, understand the importance of and support adequate resources for program administration.
- **Get educated on program vulnerabilities.** Review state audit findings and inquire about significant and repeated findings.
- **Get feedback from the field.** Incorporate the opportunity for subrecipient feedback into mandated monitoring programs.
- **Be cautious about waiving oversight requirements.** Replace relaxed procedures with an aggressive risk-based process.

About the Vander Weele Group

The Vander Weele Group is a Federally certified Woman-Owned Business specializing in oversight of large-scale grant programs nationwide, combining grants monitoring expertise with industry-specific program experience.

We offer traditional fiscal and compliance reviews, programmatic monitoring, risk assessments, internal control reviews, data analytics to detect fraud, best practice recommendations, and technical assistance for grantees.

Our Services

GUARDRAILS 360

- Pre-award **due diligence** on subrecipients.
- **Grants readiness assessments** of subrecipients, focusing on their ability to maintain compliance while managing and fulfilling the goals of the grant program.
- Comparative and single-entity **risk assessments** of subrecipients, including internal control reviews. We augment traditional analyses with **AI-driven** risk assessments, conducted in a secure environment.

TARGETED TECHNICAL ASSISTANCE

- Templated **policies, procedures, and workflows** for agencies and for grant recipients.
- **Technical assistance and training** based on subrecipient reviews.
- **Data analytics** of program and funding data.
- Anti-fraud tools and assessments.

MEANINGFUL MONITORING

- Monitoring plans, forms, manuals, job aids, and other components of **effective monitoring programs**.
- **Compliance matrices** and monitoring tools based on legal, regulatory, program, and policy analyses for each grant program.
- Desk and on-site **monitoring reviews**, either turn-key or by supporting your team with sampling, analyses, note-taking, and report writing.

Q&A

What guardrails do you suggest?

Join us for our next
webinar in the series:

Detecting Grant Fraud Through Data Analytics

Wednesday, December 3
1:00 p.m. Eastern
12:00 p.m. Central

Register at **VanderWeeleGroup.com**

For questions or to see how
the **Vander Weele Group** can help
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