

Federal Education Grant Fraud

What You Can Learn from OIG Audits

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The Basics

Fraud

The *intentional* use of deceit, tricks, or dishonest means to deprive another of something of value.

Grant Fraud

Occurs when award recipients attempt to deceive the government about their spending of award money.

- ❖ Embezzlement
- ❖ Theft
- ❖ Bribery
- ❖ False claims and statements

DPI Federal Grant Monitoring

Each team conducts monitoring protocols per their federal program or state statute requirements.

Review federal program findings submitted by independent auditors and produce a “Management Letter” sustaining or not sustaining the questioned cost or practice.

In cases where fraud involving federal funds is suspected or known, notify the US Department of Education’s Office of the Inspector General.

★ DPI’s involvement typically ends when OIG gets involved.

Office of the Inspector General

Independent entity within the US Department of Education responsible for identifying fraud, waste, abuse, and criminal activity involving Department of Education funds.

- ❖ Conduct independent audits.
- ❖ Conduct criminal and civil investigations.
- ❖ Recommend actions to address systemic weakness and improve Department of Education programs.
- ❖ Recommend changes needed in Federal laws and regulations.

Each federal agency has their own “OIG.”

Risk Mitigation for Grantees

- 1. Examine your programs to identify fraud vulnerabilities.**
- 2. Implement specific fraud prevention strategies including educating others 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.**
- 3. Maintain a well designed and tested system of internal controls.**

Risk Mitigation for Grantees

- 4. Ensure all financial or other certifications and progress reports are adequately supported with appropriate documentation and evidence.**
- 5. Ensure there is a fair, transparent and fully-documented procurement process - especially when utilizing consultants. Ensure the rate of pay is reasonable and justifiable and that the work product is well-defined and documented.**

Risk Mitigation for Grantees

6. Identify any potential conflicts of interest issues and disclose them to the appropriate officials for specific guidance and advice. Ensure everyone involved in the grant process understands the conflict of interest prohibitions.

Wisconsin School District

2013, enrollment of 606 students.

Over a period of 13 years, a secretary in the LEA issued over \$300,000 in unauthorized checks, and using the IDEA formula funds to cover the expenses.

Special education teachers would provide the secretary with purchase orders, which she would enter into the LEA's computer system for review and approval. Through that computer system, she would enter bogus invoices for items she purchased for personal use.

Wisconsin School District

After preparing and submitting an invoice, she would pick up a check from the business office - which was no longer the normal payment process but one that had been phased out years before with the advancement of technology. She would then mail the check to the vendor. If it was related to an invoice she falsified, she would use the check to make personal purchases at various stores including Menards, Pennys, Target, Wal-Mart, Best Buy and Kohl's.

She would also use IDEA funds to purchase Kalahari gift cards and give to her family.

Wisconsin School District

How did she get caught?

- ❖ Employed by the LEA since 1979, she was a long-standing and trusted employee. Dedicated to the work, showing up every day, and well-established.
- ❖ Around 2011-2012, the LEA hired a new Director of Special Education. Not familiar with the LEA's fiscal process, the Director began examining the budget, asking questions and investigating inconsistencies. Within the year, the fraud had been uncovered.

Barnstead School District

New Hampshire LEA, enrollment of 459 students.

Burley was the LEA's bookkeeper from 2011 to 2019 and in her role processed payroll and handled the payment of invoices:

- ❖ No one checked payroll, so she gave herself pay increases - her annual contract was for \$46,000 but she paid herself \$70,000 through a couple of pay period bumps. She used the funds to make student loan and credit card payments.
- ❖ She used the LEA's Amazon account, which she controlled, to make personal purchases.

Barnstead School District

How did she get caught?

- ❖ In July 2019, a newly elected school treasurer discovered some of the discrepancies and began questioning the bookkeeper's paycheck compared to the employment contract.
- ❖ Burley was fired, and the LEA hired a forensic accounting firm to conduct a complete audit of the school's finances. The audit uncovered at least \$110,000 stolen by Burley since 2014.
- ❖ In the meantime, Burley was *hired* by the neighboring Hampton School District as a bookkeeper in September 2019.

Barnstead School District

What happened next?

- ❖ After the results of the forensic audit, Burley was arrested for embezzlement (among other financial charges).
- ❖ Hampton School District, not knowing the reason Burley left her original LEA, quickly conducted their own forensic audit and discovered that Burley had continued her criminal activities and embezzled \$21,000 from them during a *single* month (August 2020 - September 2020).
- ❖ She pled guilty, and was sentenced to 12 months in prison.

Marion County School District

Danielle Liles handled the payroll at the Florida LEA's alternative middle / high school, and between 2016 and 2023, gave herself 137 unauthorized paychecks by logging false information into the alternative school's accounting software. Liles received her paychecks through Automated Clearinghouse Services (ACH) wire transfers. During a financial review with the school's executive staff in April 2023, Liles admitted that she had been "paying [herself] extra money," to the amount of \$616,793, and had become addicted to stealing the payroll funds.

Marion County School District

Liles pleaded guilty, and because this is considered “wire fraud,” she could receive 20 years in prison for each of the 8 counts of wire fraud for which she is charged (**which would be 160 years**), plus a \$250,000 fine, plus a repayment of the \$600,000 stolen.

Lesson?

If you are going to commit payroll fraud, don't do it through ACH payments :-)

Hulbert School District

Oklahoma LEA, enrollment of 528 students.

Between June 2019 through October 26, 2021, the LEA's treasurer, Leslie Mack, and the encumbrance clerk, Becky Morehead, padded their annual salary by more than \$259,000.

- ❖ Mack's salary was contracted at \$45,850 - but she took home \$181,413 that year.

Mack and Morehead also gave "raises" to two other individuals during this same time period, with a total overpayment of more than \$550,000.

Hulbert School District

How did they get caught?

- ❖ When the school board began budget work in August 2021, reconciling fund balances, the LEA was suddenly and inexplicably “broke.”
- ❖ Hulbert payroll was typically processed once per month, but in some months, the auditor found that as many as seven additional payroll payments were made to these individuals.
 - Mack paid herself 75 times and Morehead 52 times during FY 2020-2021.

Syracuse City School District

New York LEA, enrollment of 18,000 students.

Beginning with the 2015-2016 school year, the LEA received grant from the US Department of Education to operate a high school dropout-prevention program known as the Twilight Program.

The program was offered at various high schools after regular school hours. Students who enrolled in the program could make up classes and accumulate enough credits to earn their high school diplomas.

Teachers employed by the LEA staffed the program and received extra pay for working extra hours.

Syracuse City School District

The Twilight Program Coordinator, Jason Cecile, established and managed the after-school schedule. He told *certain* teachers who worked the program to claim hours on their timecard based on the amount of money that was available in the Twilight budget, not on the number of hours they worked.

The program was to run daily from 3 to 7 p.m. Cecile admitted he habitually left school early and over reported the number of hours he worked on his time card. Another teacher stated that she was scheduled to teach one class but generally left the school at 5 p.m. - but would list all four hours on her time card.

Syracuse City School District

Both Cecile and the teacher *signed* their falsified time cards and submitted them for reimbursement. This was the practice before a whistleblower stepped forward and reported the suspected fraud.

- ❖ Cecile's annual salary was \$95,647 when he was arrested in 2021.
- ❖ His falsified timesheets over the years totaled \$20,754.15.
- ❖ His father was on the LEA's school board at the time of the arrest (Dad did not run for his seat in the next election).
- ❖ Instead of 7 years in prison, Cecile's plea deal included resigning from his position, a year of probation and paying back the stolen funds.

Hempstead Union Free School District

New York LEA, enrollment of 6,708 students.

The LEA's Food Service Director, Sharon Gardner, when selecting a vendor for prepackaged breakfast meals, did not follow the LEA's established procurement process but instead entered into a sole source contract with a local restaurant (who also owned a food preparation company).

In exchange for the sole source contract, the restaurant kicked back a portion of the contract to Gardner through fraudulent payroll deposits and other payments.

Hempstead Union Free School District

To conceal the illegal nature of the arrangement, those payments were deposited into a bank account that was created in the name of one of Gardner's family members.

Over \$100,000 was paid to Gardner over the two-year period, which OIG auditors determined she spent on international vacations, a leased vehicle, and home furnishings.

Why did Gardner pick that restaurant? A relationship had been formed over the years as it catered her holiday parties.

Both she and the restaurant owner face up to 20 years in prison.

Madison District Public Schools

Madison Heights, Michigan, enrollment of 914 students.

While serving as School Board President from 2014 to 2018, Albert Morrison was instrumental in awarding annual contracts to a local building maintenance and reconstruction company, Emergency Restoration, totalling \$3.1 million dollars.

In exchange for the contracted work, the company paid Morrison more than \$561,000 over the years. Morrison spent this money on “luxury items” such as vacations in Florida and a boat slip.

Madison District Public Schools

When publicly confronted at a Madison District school board meeting, Morrison denied having any financial ties to Emergency Restoration. The reason he was publicly confronted? It came out that Morrison and the company owner had been close friends for many years.

In addition to fraud, Morrison was also charged for tax evasion for not reporting the bribery money and paying the \$118,200 owed in taxes.

He was sentenced to almost four years in Federal prison. His friend was sentenced to two years.

Conflict of Interest

The LEA must maintain *written standards* of conduct covering conflict of interest and governing the actions of its employees engaged in the selection, award and administration of contracts.

These written standards must include that “No employee, officer, or agent may participate in the selection, award, or administration of a contract supported by a Federal award if he or she has a real or apparent conflict of interest.”

§200.318(c)(1) General Procurement Standards

Conflict of Interest

A conflict of interest would exist if

- The employee, officer, or agent (including school board members) or
- Any member of their immediate family or
- Their partner

engaged in the selection of a vendor but also had a *potential* financial or a tangible personal benefit created through the contract, including selecting an organization which employs or is about to employ any of the listed parties

Defining Conflict of Interest

1. Does the subrecipient's policy & procedures include a definition of the relationships that are viewed as a conflict of interest?
2. Are employees involved in the procurement process aware of and provided a copy of the subrecipient's conflict of interest standards?
3. Do all employees involved in the procurement process fill out information on relationships that *could be viewed* as a conflict of interest?
4. What is the subrecipient's process for an individual to report a conflict of interest?

Determining a Conflict of Interest

1. What are the established standards to determine if an employee does have a conflict of interest in the procurement process?
2. Are employees regularly updated on the procurement process and potential conflict of interest standards?
3. Who reviews the information provided by the employees regarding potential conflict of interest?
4. If a conflict of interest is identified, who verifies that the employee is removed from the procurement process / decision?

Gratuities / Gifts

The written standards on Conflict of Interest must address gratuities or gifts, which can take on the form of bribes or kickbacks.

However, even individuals who are not directly involved in the procurement process must follow the agencies written policy on the acceptance of gratuities / gifts from existing or potential vendors and organizations.

Gratuities / Gifts

The written standards must also include:

That officers, employees, and agents of the subrecipient must neither solicit nor accept gratuities, favors, or anything of monetary value from contractors or parties to subcontracts.

However, the subrecipient may set standards for situations in which the financial interest is not substantial or the gift is an unsolicited item of nominal value.

Gratuities

1. Are gratuities never allowed or are there situations in which the financial interest is not substantial or the gift is an unsolicited item of nominal value?
2. If nominal value is allowed, what is the established amount? Is unsolicited defined?
3. Is this information clearly articulated to employees and relayed to staff on a regular basis?

Gratuity Examples

Nominal Value

Mugs

Pens

Shirts

Tote Bag

Items under \$25

Not Nominal Value

Gift Cards

iPads

Cash

Cars

Items over \$25

These are JUST examples, the agency must develop its own threshold and examples

Disciplinary Action

The written procedures must address disciplinary steps for employees that violate the subrecipient's conflict of interest policy.

1. What is the disciplinary action when an employee does not identify a potential conflict of interest and / or does not remove themselves from the procurement process when a conflict of interest occurs?
2. When should a conflict of interest be reported?
3. Who is responsible for reporting a conflict of interest to DPI?

Technical Assistance

❖ Required Written Procedures under the Uniform Grant Guidance

<https://dpi.wi.gov/wisegrants/uniform-grant-guidance/writtenprocedures>