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Supportive Services for Veteran Families  
Compliance Webinar Series  
Fraud Awareness Training

Department of Veterans Affairs  
Office of Business Oversight (OBO)

[Link to Audio](#)



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# Introductions

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## Presenters

Jeffrey Houser, SSVF Compliance Officer

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# Overview

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- Basics
- Prevention
  - Internal Controls
  - Risk Mitigation
- Detection
  - Red Flags
- Conflict of Interest
- Integrity
- Theft
- Incidents
- Contact Information



# Fraud Basics

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- Fraud is any crime for gain that uses deception as its principal modus operandus. More specifically, fraud is defined by Black's Law Dictionary as:
  - A knowing misrepresentation of the truth or concealment of a material fact to induce another to act to his or her detriment. Any intentional or deliberate act to deprive another of property or money by deception or other unfair means.



# Fraud Basics

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- Fraud against an organization can be committed internally by employees, managers, owners of the company, or externally by customers, vendors, and other parties.
- Fraudsters have also devised schemes to defraud individuals (i.e. identity theft, Ponzi schemes, advanced-fee and phishing schemes) to steal money from unsuspecting victims/organizations.



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# Fraud Basics

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# Internal Controls

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- Internal Policies
  - Approval Chain
  - Separation of Duties
  - Job Cross-Training
  - Bonded Cash Handlers
  - Independent Reviews
  
- Board of Directors
  - Qualified Board Members
  - Timely Meetings
  - Strong Oversight/Direction
  - Documentation of Meeting Minutes



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# Internal Controls

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- Conflicts of Interest
  - Disclose Relationships with Families or Friends
  - Avoid Personally Beneficial Relationships
  - Contracts/MOU's
  - Kick Backs and Gifts
- Payment Requests
  - Maintain all Justification and Documentation
  - Record Properly
  - Eliminate Petty Cash
    - If not possible develop extreme controls governing use





# Internal Controls

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## ■ Best Practices

- Segregation of duties for Temporary Financial Assistance (TFA)
- Case manager requesting rental payments should not be the person inspecting the unit
- Have employee complete a Vendor verification of the EIN
- Have a separate employee use local resources (tax appraisers website) to determine who owns rental unit
- Have a separate employee conduct a post placement follow up with the Veteran to ensure their copy of the lease matches the one on file
- Ensure all documents (leases, notices, etc.) have hand written dates and signatures
- Review the Veterans signature on the lease to previously signed SSVF documents
- Ensure that the lease agreement includes the Veterans name
- For continuing rental payments – call the landlord/rental agency to verify the Veteran is still occupying the unit before making any payments



# Risk Mitigation

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- Read and understand your Grant Agreement to ensure you know the rules; Agency Guidance; CFR's; Mandatory Disclosure, etc.
- Examine your programs to identify fraud vulnerabilities: time & effort records; control of "cash"
- Develop a compliance plan
- Implement specific fraud prevention strategies including educating others – the more people are aware the more they can help prevent problems or detect them as early as possible
- Maintain a well designed and tested system of internal controls
- Ensure all financial and progress reports are adequately supported with appropriate documentation and evidence
- 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
- 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



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# Detection - Red Flags

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- Payment Requests or Drawdown of Grant Funds- Agency
  - Insufficient Justification or Documentation
  - Drawdowns After Award Period Ends
  - Payment Request Exceeds Expenditures
- Lack of Proper Internal Controls
  - Segregation of Duties
  - Unsupervised Spending
  - Lack of Internal Policies
- Ineffective Board of Directors
  - Unqualified Board
  - Meets Infrequently
  - Absence of Oversight/Direction
  - Insufficient Documentation of Meeting Minutes



# Conflict of Interest

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- Grantees are required to use federal funds in the best interest of their program and these decisions must be free of undisclosed personal or organizational conflicts of interest– both in appearance and fact
- Typical Issues -
  - Less than Arms-Length Transactions: purchasing goods or services or hiring an individual from a related party such as a family member or a business associated with an employee of a grantee
  - Sub grant award decisions and vendor selections must be accomplished using a fair and transparent process free of undue influence. Most procurements require full & open competition
  - Consultants can play an important role in programs, however, their use requires a fair selection process, reasonable pay rates, and specific verifiable work product



- A grant agreement is essentially a legally binding contract. Grantees are obligated to use grant funds as outlined in the agreement and to act with integrity when applying for and reporting their actual use of funds. Grantees are also obligated to properly track the use of funds and maintain adequate supporting documentation.
- Typical Issues -
  - Unilaterally redirecting the use of funds in a manner different than outlined in the grant agreement
  - Failing to adequately account for, track or support transactions such as personnel costs, contracts, indirect cost, program income, or other sources of revenue
  - Grantee's must accurately represent their eligibility for funding and cannot provide false or misleading information in their application or subsequent narrative progress or financial status reports



- Theft is the most common issue in almost all organizations – including those that receive federal grant funding
- People that embezzle funds can be extremely creative and appear very trustworthy which is why they can do so much damage to an organization and remain undetected for extended periods of time.
- Poor or no internal controls equals virtually inevitable theft. A lack of appropriate separation of duties is one of the most common weaknesses.
- Checks written to employees as “reimbursement” of expenses and the use of ATM/Debit/Gift/Credit Cards must be carefully controlled and require robust oversight.



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# Actual SSVF Cases

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Discussion of actual SSVF Fraud cases.

- Lack of Proper Internal Controls
  - Segregation of Duties
  - Unsupervised Spending
  - Lack of Internal Policies
- Conflicts of Interest
  - Disclose Relationships with Families or Friends
  - Avoid Personally Beneficial Relationships
- Payment Requests or Drawdown of Grant Funds



## Conflict of Interest and Internal Control

- Grantee had employee who processed and requested over 1000 TFA requests.
- Employee was trusted, long standing employee.
- Trust allowed for employee to establish relationship with vendors, veterans, landlords.
- Used this trust to collaborate fraudulent transaction to the benefit of employee, veteran and vendor.

Activity occurred over multiple years.

Employee terminated

Office of Inspector General and Local Police pursuing criminal charges





# Fraud Basics

**Opportunity** was the main cause to this fraudulent activity.

- Employee was provided the opportunity as they oversaw and were responsible for many aspects of the client case and established relationships with vendors.



**Internal Controls** was a secondary contributor.

- Organization should consider verification of services provided. System to ensure vendors are actual businesses.



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## Payment Requests or Drawdown of Grant Funds

- Grantee had employee who processed and reviewed TFA for landlord and rental payments.
- Employee used position to create "fake" rental agreements, used Veteran information to appear real.
- Collaborated with landlord to split funds.
- Fraud discovered during audit due to outliers with amount of rent payments to same vendor.
  - Activity occurred over multiple years.
  - Employee terminated.
  - Office of Inspector General pursuing criminal charges.
  - Grant with SSVF and terminated
- During investigation employee indicated they were disgruntled due to pay and being passed on for promotion



# Fraud Basics

**Opportunity** was the a contributing factor to this fraudulent activity.

- Employee was provided the opportunity as they oversaw and were responsible for many aspects of the client case and established relationships with vendors.



**Rationalization** was a secondary contributing factor.

- Employee justified actions based on not being promoted and loss of extra pay.



## Subcontractor Fraud – Lack of Proper Internal Controls

- Forged documentation ranging from vendor letters to eligibility documentation
- Forged Veteran signatures to warrant TFA assistance
- Failed to produce documentation for TFA payments
- Non-Compliance with financial assistance limits resulting in multiple over payments
- Falsified client records

Employees terminated

Subcontractor relationship terminated



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# Fraud Basics

Opportunity was a contributing factor to this fraudulent activity.

- Employees of the sub-contractor realized their agency had limited or no internal controls regarding oversight with TFA payments.





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To report potential fraud, waste, or abuse, contact the OIG Hotline (800) 488-8244 or submit an online form at:

[www.va.gov/oig/hotline](http://www.va.gov/oig/hotline)



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# Questions

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Email questions to [SSVF@VA.Gov](mailto:SSVF@VA.Gov)