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Don't Risk It!! Leveraging Resources to Combat Fraud

For the State of Maine

September 28, 2026

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Today's Speaker

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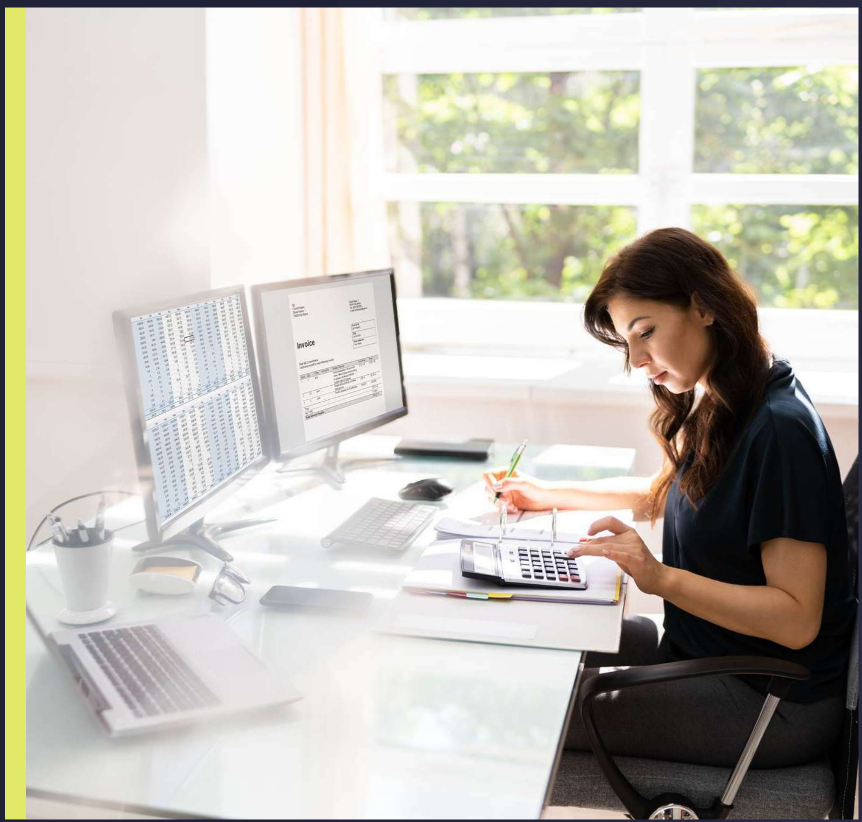
Chief Financial Officer / Grants
Compliance

Learning Objectives

- Understanding fraud
- Fraud mitigation
- Fraud risk management approach

Understanding Fraud

What Is Fraud, Waste, and Abuse



Occupational fraud

Deliberate misuse or misapplication of an employing organization’s resources or assets

What Is Fraud, Waste, and Abuse

Waste is the act of using or expending resources carelessly, extravagantly, or to no purpose. Importantly, **waste** can include activities that do not include abuse and does not necessarily involve a violation of law. Rather, **waste** relates primarily to mismanagement, inappropriate actions, and inadequate oversight.

Abuse is behavior that is deficient or improper when compared with behavior that a prudent person would consider a reasonable and necessary business practice given the facts and circumstances.

Uniform Guidance

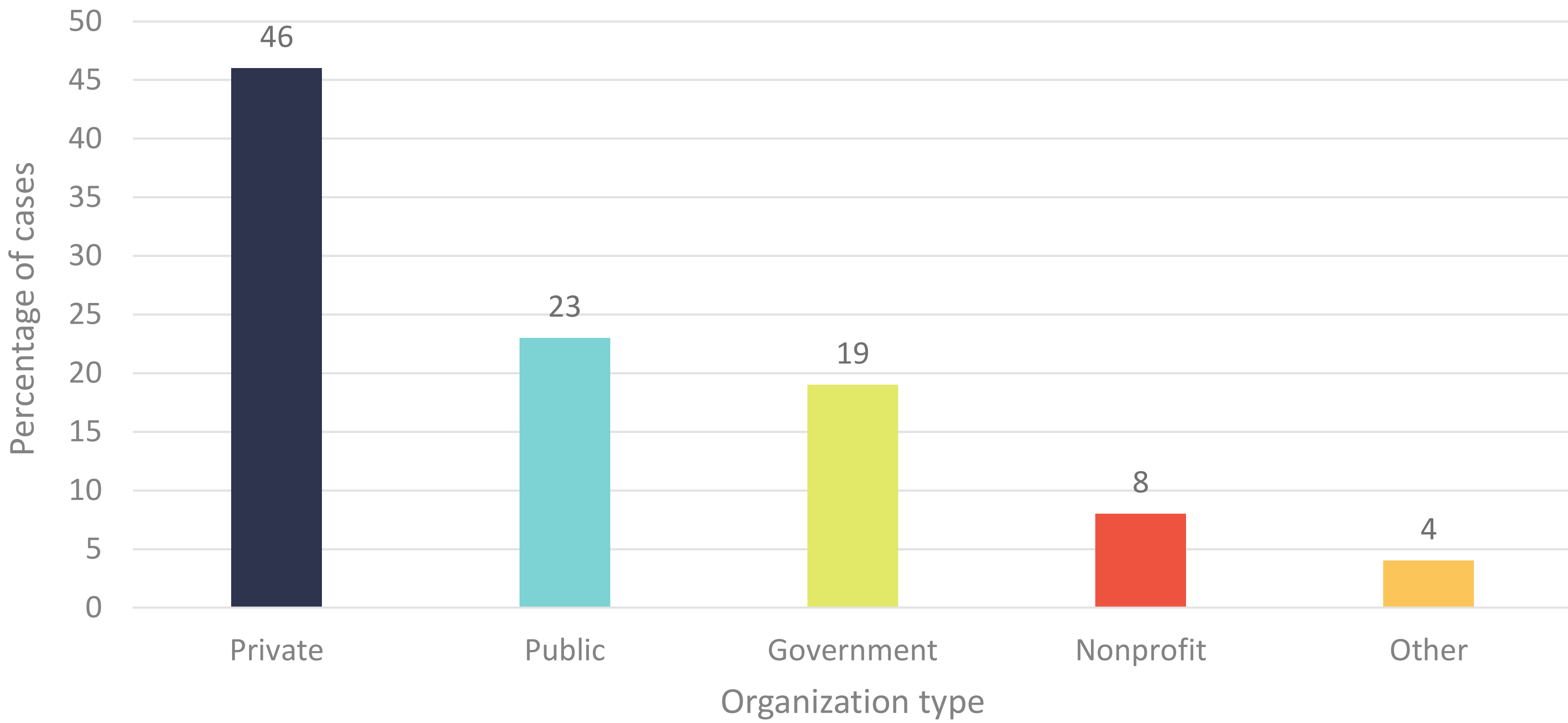
§ 200.303 — Internal Controls
§ 200.113 — Mandatory Disclosures
§ 200.300 — Statutory and National Policy Requirements
§ 200.302 — Financial Management
§ 200.318–326 — Procurement Standards
§ 200.332 — Subrecipient and Contractor Determinations / Subrecipient Monitoring
§ 200.430 — Compensation—Personal Services
§ 200.339 — Remedies for Noncompliance

Fraud Facts

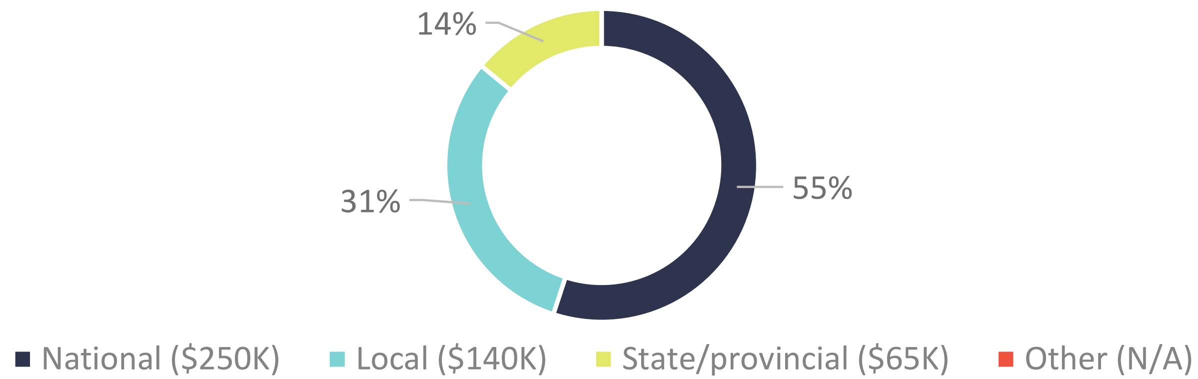
Where does fraud most often occur?

a) Private companies
b) Public companies
c) Local government/governmental agencies
d) Nonprofit companies

Where Fraud Happens – Type of Entity



Where Fraud Happens



Fraud does not occur most often at the national level BUT it is *most visible* there

Level	Fraud frequency	Visibility
Private companies	**Highest**	Low
Nonprofits	Moderate	Low-medium
Local/state government	Moderate	Medium
National/federal level	Low	**Very high**

Fraud Facts

In the United States, what is the most common fraud scheme?

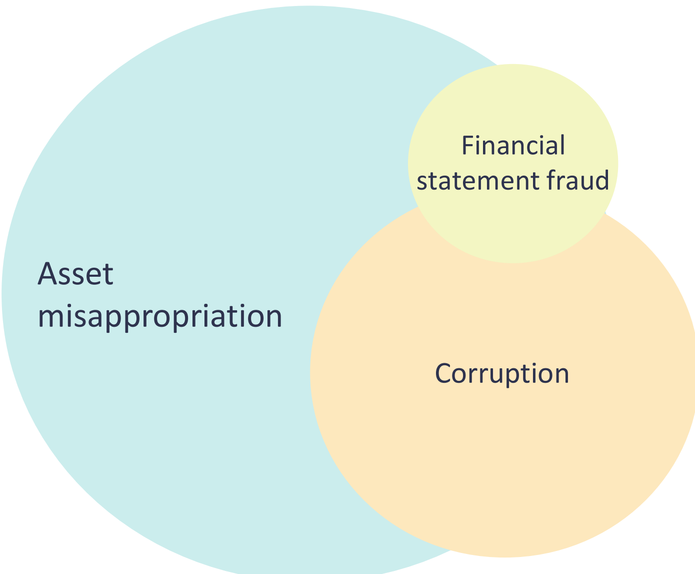
a) Payroll fraud
b) Billing schemes
c) Check tampering
d) Expense reimbursement fraud

How Fraud Is Committed by Category

Occupational fraud statistics (2024)		
Asset misappropriation	$120,000	89%
Corruption	$200,000	48%
Financial statement fraud	$766,000	5%

- **Asset misappropriation** is the most frequent form of fraud, occurring in nearly **9 out of 10 cases**, yet it results in comparatively lower financial losses
- **Corruption**, while less common, poses a greater monetary threat
- **Financial statement fraud**, though rare, leads to the most severe financial damage per incident

How Fraud Is Committed



Asset misappropriation only	49%
Asset misappropriation and corruption	30%
Corruption only	11%
Corruption, asset misappropriation, and financial statement fraud	6%
Asset misappropriation and financial statement fraud	2%
Financial statement fraud only	1%
Corruption and financial statement fraud	1%

Common Fraud in Government

INDUSTRY	Cases	Billing	Cash larceny	Cash on hand	Check and payment tampering	Corruption	Expertise reimbursements	Financial statement fraud	Noncash	Payroll	Register disbursements	Skimming
Government and public administration	198	21%	8%	7%	9%	57%	12%	8%	16%	16%	3%	8%

Fraud Facts

The fraud triangle illustrates the three key elements that contribute to fraudulent behavior: What are the three elements of the fraud triangle?

a) Intention, significance, and materiality
b) Perception, prevention, and protection
c) Pressure, opportunity, and rationalization

Why Is Fraud Committed?

Incentive/motivation

Perceived pressure facing individual

Exacerbated in economic downturn

Opportunity

Perceived opportunity to commit fraud

Slightly diminished in economic downturn

Rationalization

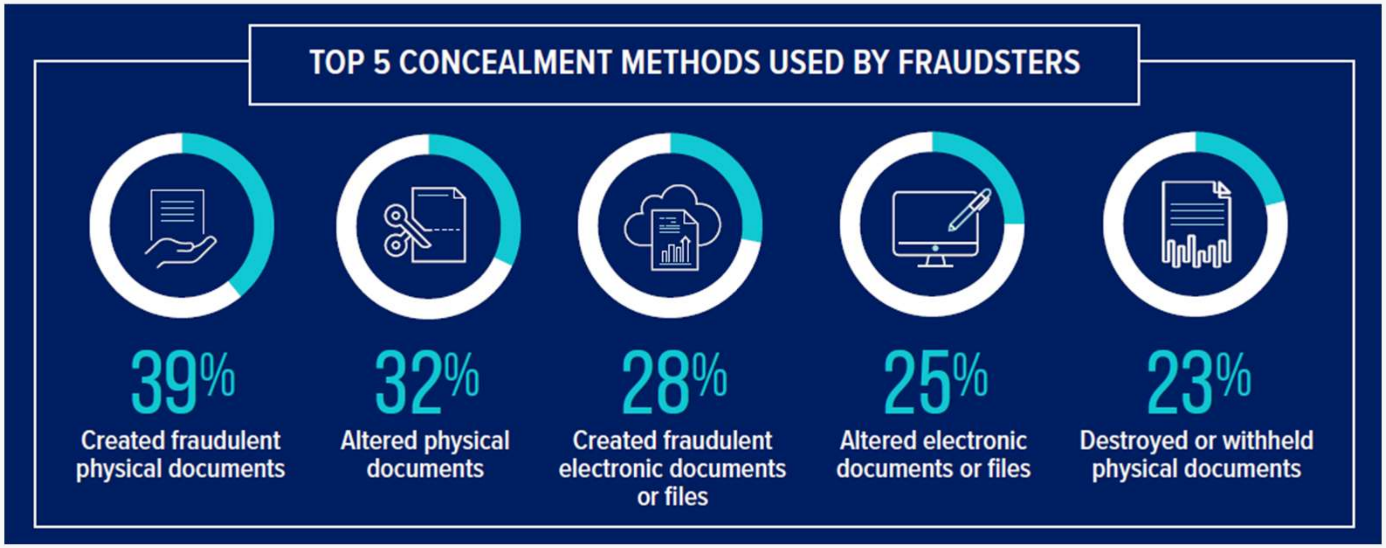
Person's rationalization or integrity

Fraud Facts

On average, how long does fraud persist until the victim organization catches it?

a) 3 months
b) 6 months
c) 12 months
d) 24 months

How Is Fraud Concealed?



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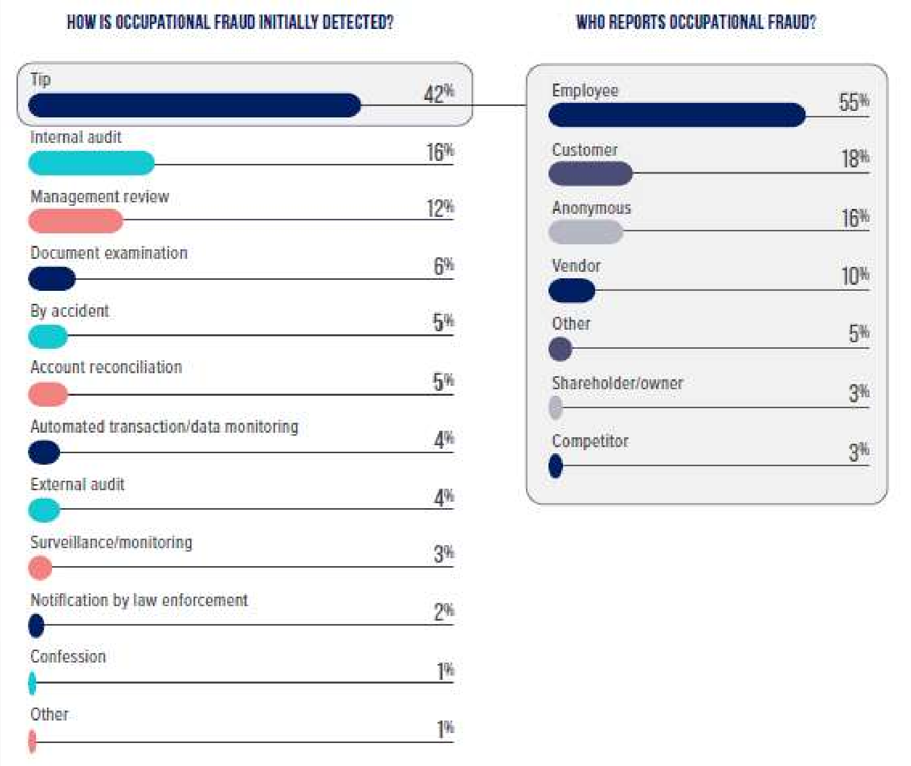
Fraud Facts

How do victim organizations most frequently discover fraud?

a) External audits
b) Tips of confessions
c) Accidental discovery
d) Analytical techniques

How Fraud Is Detected



Hotline and Reporting Mechanisms

70% of **VICTIM organizations** had hotlines

Fraud losses were

2X HIGHER

at organizations without hotlines

With hotlines	$100,000
Without hotlines	$200,000

Behavioral Red Flags

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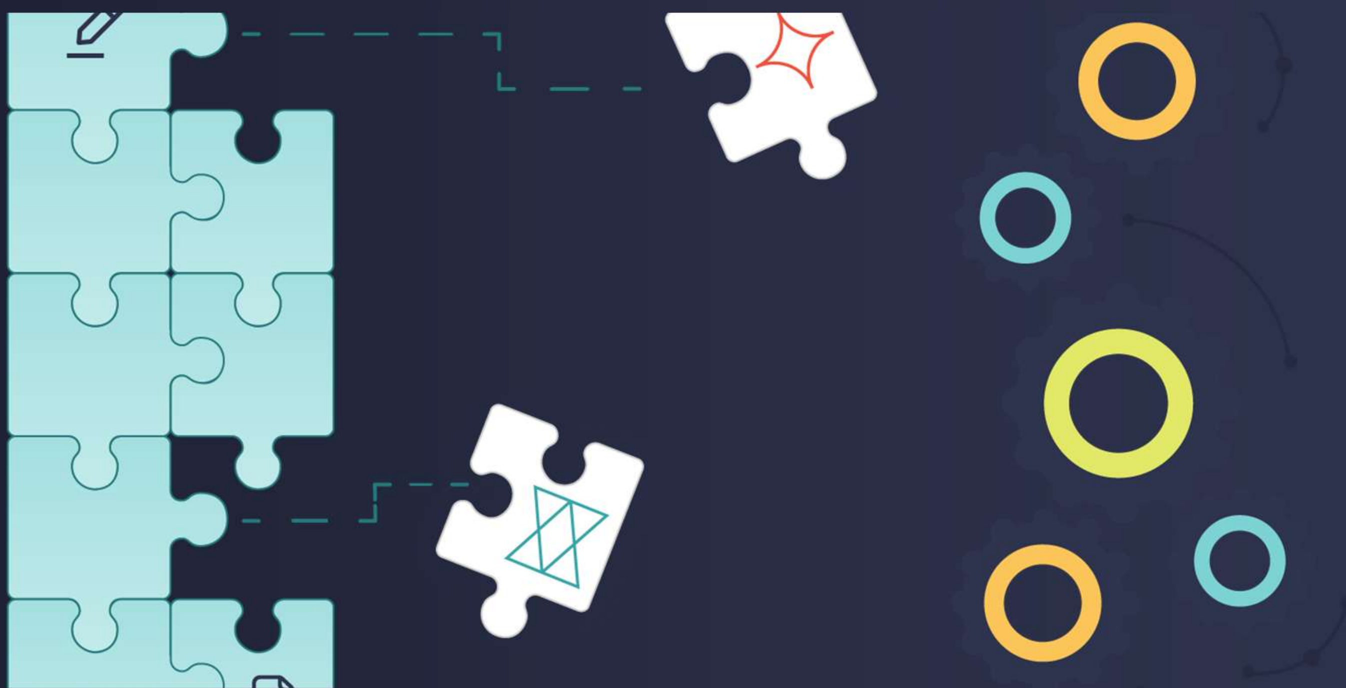
Fraud Mitigation



Fraud Facts

In general, the tested way to prevent fraud is:

a) Implement harsh penalties for perpetrators
b) Outsource all possible functions
c) Conduct covert audits
d) Increase the perception of detection

Grant Fraud Awareness

What is grant fraud?

Grant funds are awarded for **specific public purpose**

Grantees (recipients, beneficiaries) must use funds per granting agency guidelines

Grant fraud looks like: Lying, cheating, stealing

Compliance considerations: intended use, allowability, evidentiary support, monitoring, performance outcome

Grant Fraud Awareness

Grant fraud may significantly increase with COVID-related stimulus funds:

- Integrity based process: Requires professional skepticism and monitoring
- Grant fraud risks:
  - Conflicts of interest (subawards, vendor selection, consultants)
  - Failure to properly support (evidence, track, document)
  - Theft (improper expenses, indirect costs and cost allocation, reimbursements, allowability)
- Consequences:
  - Debarment
  - Recoveries – return funds
  - Civil lawsuits or criminal prosecution

How to increase awareness

Fraud risk assessment should be performed

Define and train on COI policies and procedures

A formal system of controls should be placed in service

Define and train on policies over evidentiary support

Monitor timely and consistently

Measure performance and outcome

Applicable Uniform Guidance Topics

Internal Controls 200.303	Time and Effort Reporting 200.430	Financial Management System 200.302
Subrecipient Monitoring 200.331	Indirect Costs 200.414	Procurement 200.317-327

Internal Controls

System of internal control required:

- Establish and maintain effective internal control over the Federal award
- Provides reasonable assurance that the non-federal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award
- No specific stipulations: Should comply with GAO Green Book, COSO
- Focus areas: Procurement, disbursement, GL, monitoring, reporting

COSO internal control Integrated Framework principles

Fraud and Ethics: The Control Environment Connection

Internal controls are most effective when ethical expectations shape how people use them.

1

Tone at the top

Leaders model integrity and make clear that program outcomes never justify bypassing controls.

2

Standards of conduct

Policies translate values into expectations for conflicts, procurement, reporting, and stewardship.

3

Accountability

Roles, reviews, incentives, and corrective action reinforce ethical behavior.

4

Speak-up culture

Personnel can ask questions and report concerns without fear of retaliation.

COMMITMENT TO INTEGRITY AND ETHICAL VALUES

Ethics acts across the fraud triangle by limiting opportunity and challenging rationalization.

PRESSURE	Ethical culture cannot eliminate personal or organizational pressure, but it can create safe pathways to disclose concerns before pressure becomes misconduct.
OPPORTUNITY	Clear authority, segregation of duties, documented review, and visible monitoring reduce the ability to override or circumvent controls.
RATIONALIZATION	Consistent leadership messages, fair enforcement, and transparent decisions make it harder to justify “everyone does it” or “the program needs it.”

Key takeaway: Ethics does not replace controls. Ethics strengthens the likelihood that controls will be followed, concerns will be escalated, and exceptions will be documented.

Ethical Decision Filter for Grant Management

Use before approving a transaction, exception, disclosure, or program decision.

ALLOWABLE?	Is the action consistent with the award, applicable requirements, and organizational policy?
TRANSPARENT?	Would the decision withstand review by the funder, auditor, governing body, or public?
SUPPORTED?	Do the records accurately show the purpose, parties, amount, approval, and program benefit?
IMPARTIAL?	Have actual or perceived conflicts of interest been disclosed and appropriately addressed?
ACCOUNTABLE?	Is ownership clear, has the right reviewer approved, and will concerns be addressed promptly?

If the answer is unclear or “no”: pause, disclose, seek guidance, and document the resolution before proceeding.

Financial Management System

Financial management system must include:

- Records that identify the source and application of funds
- Effective control over, and accountability for all funds and property
- Comparison of expenditures with budget amounts
- Written procedures to implement the requirements for cash management
- Written procedures for determining the allowability of costs in accordance with cost principles
  - Reasonable
  - Allocable
  - Necessary

Standards for Procurement– 2 CFR 200.317-327

Grant Procurement Fraud: Schemes, Red Flags, and Impact

Conflict of Interest

RED FLAGS Undisclosed relationships • repeated awards • resistance to competition

GRANT IMPACT **Questioned costs and repayment risk**

Bid Rigging

RED FLAGS Restrictive specifications • similar bids • recurring winners

GRANT IMPACT **Noncompliance and disallowed costs**

Bribes & Kickbacks

RED FLAGS Vendor favoritism • gifts • excessive purchases

GRANT IMPACT **Criminal exposure and debarment**

Vendor Collusion

RED FLAGS Shared addresses • identical errors • coordinated pricing

GRANT IMPACT **Inflated costs and reduced value**

False Billing

RED FLAGS Duplicate invoices • vague descriptions • missing support

GRANT IMPACT **Unallowable costs and false claims risk**

Product Substitution

RED FLAGS Specifications not met • quality issues • missing records

GRANT IMPACT **Program failure and audit findings**

Procurement fraud can enter at vendor selection, contracting, invoicing, or delivery. Visible controls help interrupt the cycle.

Consequences

- Addressing these findings typically involves implementing corrective actions:
  - Updating policies and procedures,
  - Providing training to staff, and.
  - Improving documentation and internal controls.
- Organizations may also need to repay questioned costs if they are found to be unallowable under federal guidelines.

Fraud Risk Management Approach

Fraud Facts

Which department commits the most fraud?

a) Executive/upper management
b) Accounting
c) Operations
d) Sales

Fraud Risk by Department

Department	Frequency of fraud cases	Financial impact
Accounting	**Highest**	Moderate
Operations	High	Moderate
Sales	Moderate	Moderate
Executive/upper management	Low	**Highest losses**

5 Key Principles To Monitor Fraud

"Trust is not a control, and hope is not a strategy"

What Is Risk

Risk is the possibility that events will occur and affect the achievement of objectives

Risk is the effect of uncertainty on objectives

Fraud Facts

At which point in the grant lifecycle does the greatest amount of risk most often arise?

- Application and submission
- Award notification
- Post award execution and monitoring
- Grant closeout

What Is Risk?

- The possibility that an event or condition will occur that could adversely affect an organization’s ability to achieve grant objectives, comply with applicable laws and regulations, safeguard funds, or produce accurate financial and performance reports.

Risk Assessment Objectives

- Develop and maintain clear understanding of processes
- Facilitate shared perspective on risk
- Subjectively identify risk exposure and internal control gaps
- Rationalize the system of internal control
- Communicate risk and control perspectives to personnel

Risk Assessment Outcomes

UNDERSTANDING

Understanding of key business processes and systems

MEASUREMENT

Measurement of risks and control maturity

ASSESSMENT

Assessment of risk exposure and internal control gaps

Steps in the Risk Assessment

1. Agree on risk criteria
2. Catalog specific grant administration
3. Characterize risks and control maturity in workshop sessions
4. Evaluate risk exposures and potential control gaps
5. Incorporate results into risk management response

“When risk management makes sense, one of the de facto byproducts is regulatory compliance.”

Two Views of Risk Management

Compliance view

- Compliance drives motives *("We have to do it")*
- Reacting to issues produces wrong motives:
  - People don't buy in
  - Poorly designed controls
  - Not sustainable

Risk view

- Risk management improves performance *("We should do it")*
- Managing risks to objectives creates the right motives:
  - Better-designed controls
  - Management buy in
  - Sustainable processes

4 Ways to Respond To Risk

- Internal control
- Risk avoidance
- Risk sharing
- Risk acceptance

Fraud Facts

The most common reason that employees commit occupational fraud is:

a) Poor internal controls
b) Greed
c) Personal financial problems
d) Dissatisfaction with employer

FRAUD IN ACTION

Fraud in Action

James Price – Owner and Controller of Golden Star Labs in Los Angeles

From August 2023 – June 2025 Golden Star Labs submitted more than $85M in false claims to the California Medicaid Program AND more than $11M in false claims to Medicare.

The false claims were for COVID-19, Influenza A&B, and RSV

- The lab paid "collectors" to obtain test specimens from Medicare and Medicaid beneficiaries
- Payments were made based on the number of specimens provided

- More than $17M was paid to the collectors
- The specimens were then submitted for COVID-19, flu, and RSV testing and claims were billed to Medicare and Medi-Cal

Many specimens and physician authorizations were allegedly obtained through fraudulent means like identity theft with 96% of the claims tied to the identity theft from one physician and others as well.

Approximately 96% of Medi-Cal claims during the first six months relied on the stolen identity of a single out-of-state physician.

Later claims relied on the stolen personal information of five different clinicians

Pleaded guilty June 24, 2026 to :

Paying illegal kickbacks for patient referrals

Filing a false federal income tax return and failing to report income from multiple sources including money received from victims connected to a prior investment scam.

Fraud in Action

Charges and Convictions

- Paying illegal kickbacks for patient referrals
- Filing a false federal income tax return

DOJ alleges $96M in false claims to Medicare and $60M in payments from governmental healthcare programs

Sentencing Terms

- 13 years in prison
- $500,000 fine
- 3 years of supervised release
- Restitution to Medicaid, Medicare, IRS and victims

Fraud in Action

Feeding our Future - Sponsor for federally funded child nutrition programs

Served as a sponsor and intermediary for federally funded child nutrition programs administered through the Minnesota Department of Education.

The funding was:

1. Federal money
2. Administered by a state agency
3. Passed through multiple organizations and subrecipients

According to federal prosecutors:

Organizations claimed reimbursement for meals allegedly served to children.

Fraud participants created fictitious meal sites.

Meal counts were dramatically inflated.

Approximately **$250 million** in stolen federal child nutrition funds, making it one of the largest pandemic-related grant fraud cases in U.S. history

According to federal prosecutors:

Records and supporting documentation were fabricated.

Millions of dollars of federal grant funds were diverted for personal enrichment rather than program purposes

Feeding Our Future: Key Defendants and Outcomes

Grant Fraud Case Study | Minnesota

Name	Role	Charges / Conviction	Sentence / Status
Aimee Bock	Founder and executive director of Feeding Our Future	Convicted at trial for leading the federal child nutrition program fraud scheme	500 months (about 41.7 years) in federal prison
Salim Said	Former co-owner of Safari Restaurant and major site operator	Convicted at trial alongside Aimee Bock; DOJ states he jointly oversaw the scheme	Sentencing not reported in the cited sources as of late August 2026
Abdiaziz Shafii Farah	Major meal-site operator	Convicted in the Feeding Our Future fraud scheme	28 years in federal prison
Feeding Our Future Organization	Nonprofit organization at the center of the scheme	Organization used to submit fraudulent claims through sponsored meal sites	Organization dissolved; criminal liability focused on individuals
Additional defendants	Numerous meal-site operators and participants	More than 60 guilty pleas and several trial convictions reported	More than 20 defendants sentenced; individual outcomes vary

Note: "Top five" reflects the chart supplied. One row summarizes the organization, and one summarizes the broader defendant group.

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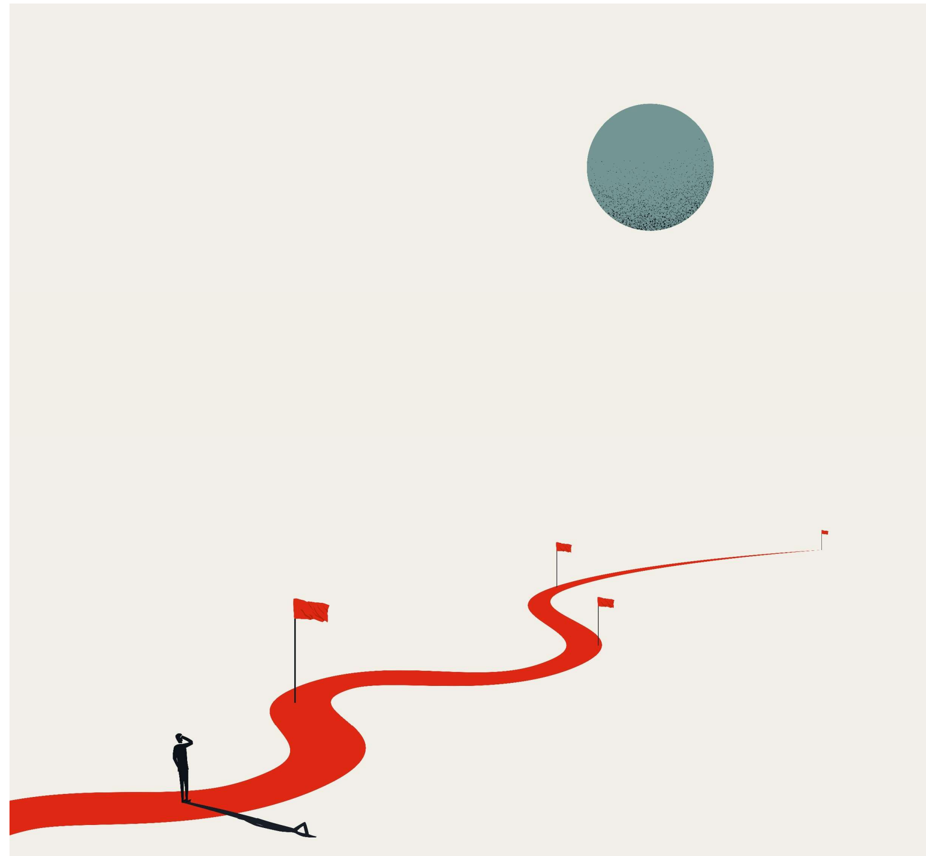
What were the red flags?

- Extraordinary growth in reimbursement requests
- Unsupported beneficiary counts
- Duplicate and fabricated records
- Limited site visits and validation
- Heavy reliance on self-reported information
- Inadequate monitoring of subrecipients
- Weak segregation of duties
- Lack of data analytics on unusual patterns
- Related-party transactions
- Vendor and payment anomalies



How could this have been prevented?

Preventative Controls	Detective Controls	Governance
• Risk-based monitoring • Site visits • Beneficiary verification • Independent documentation review • Data analytics • Fraud hotlines	• Transaction testing • Performance-to-financial reconciliations • Surprise monitoring • Subrecipient audits • Trend analysis	• Professional skepticism • Fraud risk assessments • Executive oversight • Conflict-of-interest reviews

Fraud Facts

Auditors are required to test for:

a) Waste
b) Abuse
c) Both waste and abuse
d) None of the above

Thank you!

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