



CDSS

JOHN A. WAGNER
DIRECTOR

STATE OF CALIFORNIA—HEALTH AND HUMAN SERVICES AGENCY
DEPARTMENT OF SOCIAL SERVICES

744 P Street • Sacramento, CA 95814 • www.cdss.ca.gov



ARNOLD SCHWARZENEGGER
GOVERNOR

March 4, 2010

ALL COUNTY INFORMATION NO. I-17-10

TO: ALL COUNTY WELFARE DIRECTORS
ALL COUNTY FISCAL OFFICERS
ALL CALIFORNIA COMMUNITY COLLEGES

SUBJECT: STATE OF CALIFORNIA OFFICE OF THE
INSPECTOR GENERAL (OIG) ADVISORY
ON PREVENTING AND DETECTING
FRAUD IN RECOVERY ACT FUNDS

REASON FOR THIS TRANSMITTAL

- State Law Change
- Federal Law or Regulation Change
- Court Order
- Clarification Requested by One or More Counties
- Initiated by CDSS

California is expected to receive more than \$50 billion in American Recovery and Reinvestment Act of 2009 (ARRA) funds for Federal Fiscal Year 2009-10, with \$2.4 billion earmarked for California Department of Social Services programs. The purpose of this notice is to transmit to all counties the advisory from Laura N. Chick, Inspector General; OIG, regarding prevention and detection of fraud in ARRA funds (see attached).

It is the intent of the advisory to deter fraud prior to any potential loss of funds. Counties should be especially vigilant in examining their programs for red flags during the initial application/bid process, spot-checking for potential fraud within their programs, and promoting awareness of each of the items listed in the advisory. The advisory also serves as a checklist in expending or disbursing ARRA funds to other entities.

Please note that the link mentioned in the advisory under "Red Flags in Application/Bid Process, Item # 1", provided to search a business, should be listed as: <http://kepler.sos.ca.gov/>.

Should you have any questions regarding the content of the advisory, please contact the OIG - ARRA at: (916) 322-3003 or by e-mail at: iq@inspectorgeneral.ca.gov.

Sincerely,

Original Document Signed By:

ERIC FUJII
Deputy Director
Administration Division

Enclosure



LAURA N. CHICK
INSPECTOR GENERAL

STATE OF CALIFORNIA
OFFICE OF THE INSPECTOR GENERAL
AMERICAN RECOVERY ACT FUNDS

ADVISORY ON PREVENTING AND DETECTING FRAUD IN RECOVERY ACT FUNDS

California is expected to receive more than \$50 billion in Federal Recovery Act funds. The FBI has stated that we can expect 7-10% of those dollars to be lost to fraud. That is a totally unacceptable figure. We must do everything possible at the front end to fend off the fraudsters and protect the people's precious dollars.

I am issuing this advisory to all recipients of federal stimulus dollars to use as a checklist in disbursing these funds to other entities

• **Red Flags in Application/Bid Process**

1. Applicant has recently been incorporated or filed a fictitious business statement. Query <http://kepler.sos.ca.gov/list.html>
2. Applicant holds himself/herself out as a professional, e.g., an accountant, a contractor, or someone else required to maintain special licensing status. If so, query the relevant state agency to ascertain licensing status of grant applicant. See, e.g., <https://www2.cslb.ca.gov/OnlineServices/CheckLicense/LicenseRequest.asp>
3. Applicant has not paid all applicable federal or state income and sales taxes.
4. Applicant does not have a business or similar permit to operate in the city or county where the grantee is domiciled.
5. Bond company cannot confirm that applicant has proper bond as required.
6. One person is in control of applicant's check book and same person also reconciles financial or bank accounts statements.
7. There is a lack of separation of duties within applicant's business.

8. Lack of procedures to control expenditures.
9. Records are not subject to independent audit.
10. No prior experience administering grants.
11. Business/non-profit was created solely for purpose of submitting bid/proposal for ARRA grant.
12. On grant application, it states responses to questions calling for factual information in vague or imprecise terms, e.g., instead of stating what percentage of past grants were used for overhead grant states something like: "Grantee strives to keep overhead costs below 5% of total contract value..."
13. Grantee (or spouse, family member or business associate) works for agency conferring grant.
14. Applicant submits a proposal for a procurement or grant award for which you know the vendor lacks the ability to perform.
15. Applicant brings multiple proposals to an in-person procurement or grant process or submits multiple proposals.
16. Applicant makes statements on the phone or by e-mail indicating advance knowledge of a competitor's prices or its likelihood of winning the award.

- **Spot Checking for Fraud**

1. Sorting check disbursements alphabetically can help identify vendor-lookalikes. Test for shell company payments by querying public information to identify who controls company receiving payments.
2. Sorting the total payments to each vendor in descending order of value can help you target possible fraud or kickback payments.
3. Sorting payments by frequency can help you identify possible fraud or collusion payments.
4. Sorting payments with "000.00" as the last five digits can help identify possible fraud or collusion payments.
5. Search for similar or same addresses. Different vendors showing the same mailing address can indicate fraudulent payments to a mail drop or other location controlled by the grantee.