Office of Inspector General
Legal Services Corporation

Inspector General
Jeffrey E. Schanz

3333 K Street, NW, 3rd Floor
Washington, DC 20007-3558
202.295.1660 (p) 202.337.6616 (f)
www.oig.lsc.gov

FRAUD ALERT
11-02-JS

TO: Executive Directors

FROM: Jeffrey E. Schanz
Inspector General

DATE: September 30, 2011

SUBJECT: Advisory Bulletin on How to Prevent and Detect Fraudulent Travel and Timekeeping Submissions

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The purpose of this Fraud Alert is to inform you of several investigations that uncovered fraudulent travel and time keeping submissions and to advise you how to protect your program from these types of schemes. Recent OIG investigations at several recipients uncovered repeated instances of time and attendance submissions for work not performed and travel reimbursement claims for travel not taken. These false claims by trusted recipient employees resulted in significant financial loss to the affected recipients. We are bringing these matters to your attention so you can better protect your program from falling victim to similar schemes.

This Fraud Alert is intended to inform you and your staff about common internal control weaknesses observed in these recent investigations, including untimely entry of work hours into the recipient's case management system and lack of oversight of non-attorney work. This Fraud Alert is also intended to inform you about the importance of complying with LSC requirements in order to prevent such fraud. In each case discussed below, the recipient's failure to comply with LSC requirements appears to have enabled the employee to commit the fraud. Compliance with LSC regulations and guidelines could have reduced the opportunity for fraud.

Failure to comply with requirements for time keeping under 45 C.F.R. Part 1635, attorney supervision of non-attorneys under CSR Handbook (2008 Ed.) ¶ 2.5, and to maintain adequate accounting records and internal control procedures under LSC Accounting Guide (2010 Ed.) ¶3.0, allowed travel and time keeping frauds to occur and go undetected. Paying more careful attention to LSC requirements could have reduced the opportunity for fraud or detected the fraud sooner. The following describes how noncompliance with those LSC requirements enabled the fraud to occur, and how compliance could help your program from becoming a victim of fraud and incurring significant financial loss.

Title 45 C.F.R. Part 1635 (Time Keeping)

Title 45 C.F.R. Part 1635 requires all staff attorneys and paralegals to contemporaneously document the time and date spent on each case, matter, or supporting activity. The time keeping requirement is intended to provide assurance that the allocations of expenditures of LSC funds are supported by accurate and contemporaneous records.

Several OIG investigations have revealed that employees may have succeeded in submitting fraudulent travel claims because their supervisors did not adequately review and monitor their time keeping records. For example, one employee who made false claims for travel also made numerous time entries for work that was not performed. It was later revealed that there was no support in the case files for the work hours claimed. By reviewing time entries and comparing them to the case files, the program may have not only been able to detect time keeping discrepancies, but also may have been able to prevent or detect the fraudulent travel claims.

Recipients should conduct periodic reviews of time keeping records to ensure compliance with 45 C.F.R Part 1635. Adequate review of time keeping can prevent and detect the submissions of fraudulent time keeping and associated travel and other expense claims. OIG investigations have noted that employees who submitted false travel claims also failed to comply with time keeping requirements. Time records should be compared to case file activity. When time keeping discrepancies are identified, recipients should conduct further review, including a thorough review of travel and other expense claims of the employee, and notify OIG when appropriate.

CSR Handbook (2008 Ed.) ¶ 2.5 (Non-Attorney Supervision)

The CSR Handbook (2008 Ed.) ¶ 2.5 states that advice given by a non-attorney, such as a paralegal, must be supervised by a licensed attorney in accordance with the rules of practice in the jurisdiction(s) where the recipient provides assistance, unless the jurisdiction or forum allows a waiver of attorney supervision or allows legal assistance by a non-attorney under specific circumstances. This requirement not only affords the non-attorney with supervision to ensure that appropriate legal advice is being provided, but also ensures that the non-attorney is performing the work required.

OIG investigations have revealed that several non-attorneys may have committed time keeping and travel fraud because their supervisors did not adequately oversee their work as required by the CSR Handbook. For example, a paralegal at one program was able to collect over one hundred thousand dollars by submitting false travel reimbursements claims. The paralegal submitted fraudulent travel claims for clients that were fabricated. In some instances, the paralegal created phony case files but failed to include supporting documentation in the file; in other instances, there was no case file at all. It was later revealed that the paralegal was unsupervised and their case files had not been reviewed. Adequate supervision of the paralegal, as required by LSC, could have prevented the fraud or detected it sooner.

Recipients should periodically review case files to comply with the CSR Handbook. Adequate supervision, including adequate supervision of non-attorneys, can prevent and detect the false time keeping and travel claims. Time keeping entries, case file documentation, and work annotated in the case management system, should be compared to dates, destinations and purpose of trips related to travel claims, including mileage reimbursements. Reviewers should determine not only whether there is adequate support for the time entries and travel submissions, but also assess the reasonableness of the charges. Many travel fraud cases are the result of employees claiming mileage reimbursement for non-existent clients or trips not taken. More careful oversight can prevent all employees, not just non-attorneys, from being able to commit these frauds, or at least help detect them before more damage is done.

LSC Accounting Guide (2010 Ed.) ¶3.0 (Adequate Accounting Records and Internal Control Procedures)

The LSC Accounting Guide (2010 Ed.) ("Guide") ¶3.0 requires that all LSC recipients, under the direction of their Boards of Directors, establish and maintain adequate accounting records and internal control procedures. The Guide further states that well-drafted internal controls can improve the effectiveness of the program's operations, the reliability of the recipient's financial information, compliance with laws and regulations, and the safeguarding of assets. Establishing well-defined expense reimbursement policies and strict expense documentation requirements is one of the key practices in preventing fraud. LSC recipients should not only establish internal controls, but should ensure, through periodic reviews and training, that the controls are effective and that employees are adhering to them.

OIG investigations have revealed that trusted, high-level employees at several LSC recipients submitted travel and other expense reimbursement claims without following procedures applicable to other program employees. For example, in several cases, Executive Directors were allowed to submit travel reimbursements without documentation or supervisory approval required for other employees. The affected recipients had accounting records and internal control procedures; however, there was a breakdown in those controls and policies when they were not applied uniformly.

Recipients should require adequate accounting records and follow internal control procedures, without making exceptions, to ensure compliance with the Guide. Compliance with the Guide could have prevented fraudulent or questionable claims. Expense approvals should be based on a sound internal control review process; exceptions should not be made because of an employee's trustworthiness, length of service, or status. Recipients also should periodically test internal control procedures for compliance by all employees and, when appropriate, consider strengthening controls, such as Executive Director travel and other expenses being approved by their Board of Directors or its designee.

How You Can Protect Your Program from Travel and Time Keeping Fraud

LSC recipients have incurred significant financial losses from fraudulent or questionable time keeping and travel claims. Evidence gathered during several recent OIG investigations suggests that increased attention to compliance with LSC's time keeping, supervision, and accounting and internal control requirements could have reduced or eliminated those losses. Regulatory compliance, therefore, is not just important as a matter of law; compliance also is essential to ensure financial integrity and your program's viability.

To reduce the opportunity and temptation to commit fraud, the OIG encourages all recipients to be more vigilant and to consider taking the following steps:

- Implement periodic time keeping and case file review of all employees
- Require supervisory review and approval of travel and other reimbursement claims
- Require travel claims to include the date and time of travel, client name or case number, and supporting documentation.

- Compare travel and other reimbursement claims against time keeping and case file information to validate claims
- Strengthen existing internal controls, including requiring approval of Executive Director travel and other expense reimbursement claims by the Board of Directors or designee

To enhance the value of this Fraud Alert, members of my staff, who are knowledgeable about LSC requirements and how compliance with those requirements can prevent and detect fraud, will be offering a webinar to provide additional information as well as an opportunity for you and your staff to ask questions. If you are interested in attending the webinar, which will be scheduled at a future date, please contact Carla Smith, Investigative Counsel, at (202) 295-1536, or at cs@oig.lsc.gov, by October 15, 2011.

Utilizing the OIG as a Resource

The OIG, which has a highly-trained staff, including Certified Fraud Examiners and Certified Public Accountants, is available as a resource to help in preventing and detecting fraud. We are available to conduct Fraud Vulnerability Assessments (FVA), Fraud Awareness Briefings (FAB), or both at your program. An FVA involves a financial review of areas identified as being most vulnerable to thefts, such as purchase of supplies and services, petty cash, training, payroll advances, and travel reimbursements. Results are reported to you for your benefit. A FAB is a presentation to program staff about topics such as who commits fraud, why people commit fraud, how fraud can be detected or prevented, and what to do if fraud is suspected. We also describe various types of fraud schemes perpetrated against LSC recipients. The FAB provides an opportunity for staff to ask questions and make suggestions regarding ways to prevent fraud at their programs. The FVA and FAB programs have been responsible for helping to identify various frauds at LSC recipients. Please contact us if you would like more information.

In addition, please remember that your program is required by LSC Grant Assurance ¶15 to contact the OIG immediately if there is reason to believe that your program has been a victim of fraud. Please periodically remind your employees that the OIG can be reached via confidential Hotline, (800) 678-8868 or (202) 295-1670, and Hotline@oig.lsc.gov, to report suspected fraudulent activities. They also may contact the OIG's Chief Investigator, Mike Shiohama, at (202) 295-1655, or at ms@oig.lsc.gov.

I hope you find this Fraud Alert useful. Of course, if you have any questions, please do not hesitate to call me directly at (202) 295-1677, or by email at js@oig.lsc.gov. Thank you for your help in protecting scarce LSC resources.