

2024-2025 Riverside County Civil Grand Jury Report

Fraud Detection in Riverside County Grants
May 28, 2025



HWS HOUSING AND
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Fraud Detection in Riverside County Grants

SUMMARY

The United States Department of Housing and Urban Development (HUD) oversees housing and community development programs, allocating federal grants to states that then distribute these funds to counties.

Riverside County's Department of Housing and Workforce Solutions (HWS) handles HUD grant applications for non-profit and for-profit organizations. Approved funds are distributed to subrecipients who must contractually comply with statutory and regulatory requirements.

When a county or city passes grant money on to an individual, corporation, or non-profit, that entity becomes a subrecipient of the grant.

In March, 2023, an HWS account technician found irregularities in a Palm Springs subrecipient's claim for payment. This led to a detailed review of the subrecipient's current and past documents by HWS administrators. The findings were then forwarded to the Riverside County Auditor Controller, who referred the matter to the Riverside County Counsel and District Attorney.

On October 23, 2024, the Riverside County District Attorney announced that a Riverside County Criminal Grand Jury indicted the subrecipient on 53 felony counts, including fraudulent claims, theft, misappropriation of public funds, insurance fraud, perjury, and money laundering. The indicted subrecipient received funds from Riverside County and the City of Palm Springs of more than \$940,000.

In that announcement, the District Attorney called on the Riverside County Civil Grand Jury (Civil Grand Jury) to "investigate any potential government malfeasance¹ or misconduct that may have occurred in the administration of these contracts."² He also stated that, "It is simply unacceptable that public funds are handed out with the lack of due diligence or oversight that is alleged in this case."

Malfeasance: This is intentional conduct that is unlawful or wrongful. Malfeasance involves a deliberate act that is legally and morally wrong. See footnote 1.

The Civil Grand Jury investigated the policies and procedures of County employees to determine if there was evidence of malfeasance or misconduct by Riverside County employees.

¹ "Malfeasance, Misfeasance and Nonfeasance" Eglet Law, November 9, 2024 URL is located at <https://www.egletlaw.com/malfeasance-nonfeasance-and-misfeasance/> Accessed May 20, 2025

² Riverside County District Attorney, "Criminal Grand Jury Indicts Nonprofit CEO on 53 Felony Counts in Fraud Scheme Involving Theft of More Than \$940,000 in Public Funds" URL is located at https://rivcoda.org/nonprofit_fraud. Accessed May 13, 2025.

The Civil Grand Jury found no evidence of malfeasance or misconduct. However, it is making recommendations, including enforcing existing policies, taking grant reviewers' concerns seriously, implementing a policy for quick reviews of previous months' claims from subrecipients as part of processing future claims, and requiring annual fraud detection training for employees involved in grant administration.

BACKGROUND

Every year, hundreds of billions of dollars are distributed in the form of federal grants to universities, local governments, organizations, and individuals. According to data from the U.S. Government Accountability Office approximately 75-80% of federal grant funds awarded to state and local governments are passed on to subrecipients, such as nonprofits, community groups, and other entities.³ The remaining 20-25% is typically spent directly by city and county governments themselves. Approximately 30% of U.S. nonprofits receive government grants.⁴ In Fiscal Year 2024, federal transfers to state and local governments amounted to approximately \$1.1 trillion, accounting for 16.2% of total federal spending.⁵

Determining the exact portion of federal grants passed from state and local governments to non-governmental subrecipients is complex due to the varied nature of grant programs and reporting practices. Additionally, the Office of Management and Budget (OMB) has noted that some programs classified as grants to state and local governments may, in part or in whole, direct funding to non-governmental providers.⁶

Federal grant programs are designed to allocate funds for specific public purposes, relying on the integrity of recipients to use these funds appropriately. However, instances of misuse, deceit, and abuse do occur, leading to significant financial losses. The U.S. Government Accountability Office estimated that, between fiscal years 2018 and 2022, the “federal government could lose between \$233 billion and \$521 billion annually to fraud.”^{7, 8}

³ <https://ffis.org/> and <https://www.gao.gov/>. The percentages given are not explicitly stated in the listed websites, but are an estimate based on a review of the data contained within. Accessed March 18, 2025.

⁴ Cathleen Clerkin, Ph.D., Anna Koob, and David Wolcheck “How reliant are nonprofits on government grants?” February 6, 2025. URL is located at <https://blog.candid.org/post/how-many-nonprofits-rely-on-government-grants-data/> Accessed March 18, 2025.

⁵ “How much federal money goes toward all state and local governments?” <https://usafacts.org/answers/how-much-money-does-the-federal-government-provide-state-and-local-governments/country/united-states/>. Accessed April 2, 2025

⁶ Iris J. Lav and Michael Leachman, Center on Budget and Policy Priorities, “At Risk: Federal Grants to State and Local Governments,” March 13, 2017. URL is located at <https://www.cbpp.org/research/at-risk-federal-grants-to-state-and-local-governments>. Accessed April 2, 2025.

⁷ “Fraud Risk Management: 2018-2022 Data Show Federal Government Loses an Estimated \$233 Billion to \$521 Billion Annually to Fraud, Based on Various Risk Environments,” Grant fraud flyer, Office of the Inspector General, URL is located at <https://oig.justice.gov/sites/default/files/2020-02/GrantFraudHandout.pdf>. Accessed April 2, 2025.

⁸ US Government Accountability Office April 16, 2024. URL is located at <https://www.gao.gov/products/gao-24-105833>. Accessed April 2, 2025

Fraudulent activities can include embezzlement, theft, bribery, and the submission of false claims. The Department of Justice emphasizes that grant fraud typically involves recipients attempting to deceive the government about their spending of award money, amounting to "lying, cheating, and stealing."⁹

Detecting and preventing these violations is challenging due to the complexity and scale of federal programs. In fiscal year 2023 alone, the federal government reported an estimated \$236 billion in improper payments, which include overpayments, underpayments, and payments lacking sufficient documentation.¹⁰ These figures underscore the importance of robust oversight and stringent internal controls to ensure that federal funds are used as intended and to mitigate the risk of fraud and abuse.

The Role of Riverside County

Determining the amount of money that Riverside County gets each year from Federal grants is complicated. The money is derived from multiple sources and many individual Congressional acts. For example, Riverside County was awarded \$480 million from the American Rescue Plan Act. It also received \$500 million from the 2020 Coronavirus Aid, Relief & Economic Security Act. However, those funds are not spent over one year but over a longer period of time, making yearly totals hard to calculate. In addition, Riverside County gets \$1.7 to 1.8 billion per year in Federal funds for general operating purposes, as well as many other lesser grants for various purposes.¹¹

The portion of this money that is not spent directly by the County is administered by various departments within the County, ensuring compliance with grant guidelines and monitoring subrecipient performance. The Department of Housing and Workforce Solutions (HWS), for example, administers many federal grants. Within HWS, the Continuum of Care (CoC) Division is tasked with managing and distributing grants that focus specifically on combating homelessness, working closely with various subrecipients, including nonprofits and community organizations, to ensure that the funds are used efficiently and that grant requirements are met.

⁹ "Grant Fraud" Grants.gov: URL is located at <https://www.grants.gov/learn-grants/grant-fraud>. Accessed April 2, 2025

¹⁰ "Federal Government Made \$236 billion "Improper Payments" Last Fiscal Year." US Government Accountability Office, Posted on March 26, 2024. URL located at <https://www.gao.gov/blog/federal-government-made-236-billion-improper-payments-last-fiscal-year>. Accessed April 2, 2025.

¹¹ Riverside County Recommended Budget, 2024/25 URL located at https://rivco.org/sites/g/files/aldnop116/files/users/user61/FY2024-25%20Riverside%20County%20Recommended%20Budget%20-%20Volume%201%20FINAL_0.pdf?utm. Accessed May 20, 2025

The process generally involves:

1. Finding and Approving Subrecipients:

Riverside County, through its various departments, identifies potential subrecipient organizations that are qualified to receive and manage federal funds. These subrecipients must demonstrate their ability to conduct the grant's objectives, which sometimes involve providing services directly to those experiencing homelessness or funding housing initiatives, in addition to other social services.

Subrecipients are selected based on a competitive process or through other criteria established by the County and Federal requirements. Once approved, subrecipients enter into agreements with the County outlining the specific terms and conditions of the grant, including reporting requirements, eligible expenses, and performance metrics.

2. Reviewing and Approving Payments:

Once subrecipients receive their grants, they are required to submit claims and reports to the County for approval. These claims detail how the funds have been spent or how services have been provided, including documentation of expenditures, invoices, and other supporting materials.

The County's role in the payment process is to review these claims for accuracy and compliance. Individuals in Riverside County's staff, typically account technicians or other grant administrators, examine the claims to ensure that they adhere to the grant's requirements. Reviewers should approve payments only after confirming they are legitimate and related to the grant agreement.

Payments for grants that are reimbursed on an expenditure basis, such as HUD grants, are made only after the subrecipient provides documentation that expenses have been incurred. In contrast, grants that allow for advance payments, like some of the Emergency Solutions Grant-Corona Virus (ESGCV) grants, may distribute funds up front, though they are still subject to oversight and post-payment documentation.

3. Monitoring and Auditing:

In addition to reviewing claims, Riverside County is responsible for periodically monitoring the work of subrecipients to ensure compliance with the grant's objectives. This can include regular reporting from the subrecipient, site visits (where applicable), and financial audits. While site visits or audits are generally part of this monitoring process, it is important to note that the extent and frequency of these checks can vary. The County can also conduct desk reviews,

where they assess the documentation provided by the subrecipients without physically visiting the site.

If discrepancies or issues are detected in claims or performance reports, the County has the authority to request further documentation, or even suspend funding until the matter is resolved. In cases of suspected fraud or other serious irregularities, the County is obligated to forward the issue to higher authorities, such as the Riverside County Auditor-Controller or County Counsel.

METHODOLOGY

The Civil Grand Jury conducted a series of interviews, reviewed documents, viewed websites, and communicated with relevant individuals and organizations through emails and telephone calls.

Interviews

- Representatives from the Riverside County Department of Housing and Workforce Solutions
- Representatives from the Riverside County Continuum of Care Division
- Representatives from the Riverside County Auditor Controller
- Riverside County Chief Executive Officer

Websites

- The Palm Springs Post, <https://thepalmspringspost.com/>
- Federal Funds Information for States <https://ffis.org/>
- U. S. Government Accountability Office <https://www.gao.gov/>
- U.S. Department of Justice Office of the Inspector General <https://oig.justice.gov/>
- Grants.gov <https://www.grants.gov/>
- Center on Government Policy and Priorities <https://www.cbpp.org/>
- Every Congressional Research Service Report.com <https://www.everycrsreport.com/>
- Candid <https://candid.org/>
- Urban Institute <https://www.urban.org/>
- USA Facts <https://usafacts.org/>
- County of Riverside Housing and Workforce Solutions <https://rivcohws.org/>

Documents

- Reviewed over 40 documents generated during the application and claims review processes
- Reviewed documents pertaining to policies and procedures in place in HWS and CoC both before and after the suspicions were discovered

Emails and Phone Calls

- Various email and telephone communications as follow up after interviews

DISCUSSION

In late March 2023, an account technician at Riverside County's Department of Housing and Workforce Solutions (HWS) identified several irregularities in a payment claim submitted by a subrecipient from Palm Springs. The subrecipient had made errors in the required paperwork. When such mistakes occur, HWS employees assist new subrecipients by pinpointing the errors and informing them about the necessary information to complete the documentation. It is common for new subrecipients to make mistakes until they become familiar with the mandated documentation.

On this occasion, the account technician first contacted the subrecipient for clarification and further documentation, but the ensuing conversations and further documentation only increased the technician's suspicions. Several documents appeared to be in the same format, despite being purportedly from different sources. Other documents appeared to be different copies of the same document, but with dates and/or dollar amounts changed.

After showing the problems to a coworker, the account technician took the claim to their supervisor, who thought the matter important enough to discuss with the Fiscal Manager of CoC, who in turn took it to the Deputy Director of Accounting and Finance of HWS. After reviewing the claim and discussing the problems with the subrecipient, the Director instituted a desk review of the subrecipient's claims, including past claims. Based on the findings of that review, the matter was forwarded to the Riverside County Auditor Controller, who subsequently passed it on to the Riverside County Counsel, who referred the matter to the Riverside County District Attorney. This entire process, from the receipt of the claim that initiated the process to the involvement of the District Attorney, took less than three months.

From the beginning of the process onward, no further funds were distributed to the subrecipient. Although the County had issued three grants to the subrecipient, only two had claims for reimbursement filed or monies disbursed. The second grant issued was never acted upon, only the first and third. The first grant was used by the subrecipient in its entirety. The second grant, as well as the remainder of the third grant, were subsequently reissued to another subrecipient.

Upon completing a lengthy investigation, the District Attorney announced the indictment of the CEO (of the non-profit which was the subrecipient) on 53 counts, and specifically requested that the Civil Grand Jury investigate the matter for "any potential government malfeasance or misconduct that may have occurred in the administration of these

contracts.”¹² That request led to the Civil Grand Jury undertaking two investigations, one into the role of the County of Riverside in the administration of the three grants that it had issued to the subrecipient, and a separate investigation into the role of the City of Palm Springs in the administration of separate grants which it had issued to the same organization. This report is limited to the County’s role and does not address any of the issues that arose in relation to the Palm Springs grants.

The Civil Grand Jury investigated the issuance and administration of federal and state grants by Riverside County’s HWS. The inquiry focused on potential employee misconduct, the effectiveness of the grant approval process, early fraud detection measures, recent changes in grant administration, and strategies for reducing future risks.

1. Was there any evidence of malfeasance or misconduct on the part of any Riverside County employee in the issuance or the administration of any of the grants?

No. The Civil Grand Jury did not find any reason to believe that any of the numerous County employees who participated in the administration of these grants were operating under any motives except those of doing their jobs to the best of their abilities. Moreover, their efforts ultimately detected the suspected fraud, and the movement of those suspicions up the chain to the indictments was relatively prompt and sure. This conclusion is not meant to imply that no mistakes were made, but such mistakes as were made did not rise to the level of malfeasance or misconduct.

2. Was there anything in the grant approval process that should have brought suspicion upon the subrecipient before the grants were issued?

Again, the answer is “No.” The Civil Grand Jury reviewed multiple documents that were generated during and by the subrecipient’s application and review process. These included:

- Evaluator’s threshold review of the subrecipient.
- A letter from the State of California documenting the subrecipients non-profit status.
- Subrecipient’s financial statements.
- Proof of liability insurance.
- Many letters of clarification for answers given in the review process.
- A spreadsheet containing evaluators rankings and comments for each of 85 questions asked.

Nothing in any of the documentation reviewed indicated that there was any reason to disqualify the subrecipient from receiving grant funding.

¹²Talkington, Mark. "Grand Jury Indicts Queer Works CEO on Multiple Fraud Charges." The Palm Springs Post, October 23, 2024. URL is located at <https://thepalmspringspost.com/grand-jury-indicts-queer-works-ceo-on-multiple-fraud-charges/> Accessed April 15, 2025.

3. What, if anything, could have been done to discover the suspected fraud at an earlier date than that on which it was finally noticed?

The Civil Grand Jury has determined that there were opportunities to detect the suspected fraud at an earlier date than when it was noticed. The suspected fraud was finally detected during a review of the sixth claim for payment under the grant. The account technician assigned to the grant had noticed discrepancies, carelessness, and missing paperwork from the first claim on. They had taken those concerns to their supervisor on several occasions, only to have the claims approved, albeit with sometimes substantial deductions for missing documentation. This despite the General Guidelines under the “Required Documentation for Continuum of Care Claims” that was in effect at that time, which included the requirements:

- Claims must be submitted in an organized format.
- All required worksheets and backup documentation must be included, and must match the amounts requested, and must be clear and legible.
- Any claims difficult to review due to organization or backup documentation issues will be rejected.

While several of the subrecipient’s previous claims were delayed and reduced due to these and other issues, none were rejected outright.

The reasons for this are several:

- a. Allowances are made for new subrecipients in learning the paperwork involved in filing claims. They basically must be taught how to format and organize their claims for a quick review. The forms that must be filed and the documentation required are not necessarily instinctive. Most subrecipients require a few months before they start turning in clean claims.

It should be noted that while this was this subrecipient’s second grant that was administered by Riverside County, the first grant had been a street outreach program that did not include the heavy documentation that the second required. Moreover, the satisfactory completion of that first grant was influential in the awarding of the second grant. Thus, an element of trust was established that possibly caused the potential for fraud to be overlooked.

- b. The nature of the grant was the renting of housing for homeless people. This created a necessity that the subrecipient be paid in order for the landlords to be paid and the homeless not be evicted and become homeless again. While rejecting the claims was certainly allowed under the letter of the rules, rejecting them would not be expedient to the overall goals and purpose of the grant. Again, latitude was given and deductions made for missing documentation, allowing less obvious problems to pass undetected.

- c. The suspicious documentation was not as apparent while reviewing one individual claim as it became when looking at several claims simultaneously during the desk review. Altered dates or dollar amounts that cannot be detected when looking at one copy of a particular document can become obvious when several versions of the document are viewed together. Thus, there were problems discovered during the desk review that had not been previously noticed.
- d. According to multiple sources, there is a culture that can exist within organizations that administer grants that can cause them to be pre-disposed to spend the money. Time limits are frequently set in place that emphasize rapid expenditure of grant money. Failure to spend money authorized by a current grant can result in a lesser amount being awarded on a subsequent grant. This is not meant to imply that such spending is necessarily fraudulent. There can be genuine reasons for making larger expenditures once it is established that there are sufficient funds left to cover them. But the culture that results from the constant need to use all the funds that are granted can result in “yes” becoming the default answer when it comes to releasing funds, even if the expenditures in question are of marginal value in executing the purpose of the grant. This was especially prevalent during the post-COVID years. The federal government itself was pressing grant recipients to spend money.¹³ The Civil Grand Jury has reason to believe that offices within HWS were affected by this culture to one degree or another during the period in which the suspicious documentation was discovered. The extent to which this culture contributed to delaying the discovery of the suspected fraud cannot be determined, but the Civil Grand Jury believes the issue to be pertinent.

The effect of these factors is that no one above the account technician level took a hard look at the subrecipient’s claims until the sixth claim filed under the grant was received. Once the claims were considered as a whole, the suspected fraud became apparent.

4. Have there been any changes to the way grants are administered within HWS due to the issues discovered?

The Civil Grand Jury has received no evidence that written policy has changed substantially since the suspected fraud was discovered. For example, the document entitled “Required Documentation for Continuum of Care Claims” that was in effect at the time of the suspected fraud was updated on July 26, 2023, a few months after the suspected fraud was discovered. The older version and the newer, revised version are virtually identical, except for some added forms of proof of payment. The Civil Grand Jury noted that the policies in place on both the older and the newer versions might have aided in the more rapid discovery of the suspected fraud had they been strictly adhered to. For example, both the old and the new documents contained the statement “Any claims difficult to review due to organization or backup documentation issues will be rejected.” (Sic).

¹³ GRANTS MANAGEMENT Observations on Challenges with Access, Use, and Oversight. URL located at <https://www.gao.gov/assets/gao-23-106797.pdf> Accessed April 16, 2025.

Interviews with multiple people revealed that most, if not all, of the subrecipient's previous claims could have been rejected on those grounds but were allowed to pass through for reasons listed above. Therefore, the Civil Grand Jury has concluded that changing written policy is not as important as enforcing policy that is already in place. A more rigorous look at the subrecipient's previous claims might have revealed the suspected fraud sooner.

And, in fact, antidotal evidence received through interviews indicates that there was an unwritten shift towards stricter adherence to policy after the suspected fraud was noted. Supervisors and managers have been encouraged to make a closer inspection when a claims reviewer approaches them with a problem claim.

5. What could be done in the future to reduce the risk of such events reoccurring?

The Civil Grand Jury discovered there is no formal training in fraud detection required for those who review grant claims. We believe such training would be extremely helpful as a first-line tool in fighting fraud. It is one thing to approach your supervisor with a claim that is illegible, disorganized, or lacking in documentation. It would be another thing altogether to have evidence, based on your training, that some of the documentation was fraudulent.

Having past claims at hand and reviewing them briefly when processing a current claim could aid in spotting anomalies. Has the amount claimed for a recurring item changed substantially? Why? Does any of this month's documentation look suspiciously like last month's, perhaps with just the date changed? Being on the lookout for such things might have aided in spotting the suspected fraud sooner.

Supervisors and managers should be cautious when approving claims that reviewers have questioned. Several of the subrecipient's prior claims were questioned by the claim's reviewer assigned to the account, only to be approved by those higher up.

Every effort should be given to quell any institutional culture that emphasizes the spending of money over adherence to policy and compliance.

FINDINGS

- F-1 The Civil Grand Jury found no evidence that any actions taken by Riverside County employees in the administration of the grants in question constituted malfeasance or misconduct.
- F-2 There were previous issues with claims filed by the same subrecipient that could have prompted an earlier investigation into the documentation.

- F-3 Claim reviewers expressed documentation concerns to their supervisors, yet the claims were paid.
- F-4 HWS experienced political pressure from both Federal and state governments to settle marginal claims, particularly during and immediately following the COVID-19 pandemic.
- F-5 Issues that were not apparent in individual claims submitted by a subrecipient became evident when multiple claims were reviewed collectively.
- F-6 HWS employees lack fraud detection training.

RECOMMENDATIONS

- R-1 The Civil Grand Jury recommends that HWS strictly enforce existing policies that prevent the distribution of grant funds based on claims that lack the required clarity and documentation no later than November 1, 2025.
Based on Findings 2, 3, and 4
Financial Impact-Minimal
- R-2 The Civil Grand Jury recommends that HWS upper management personnel emphasize the importance of addressing lower-level grant reviewers' concerns regarding claims that lack the required clarity and documentation no later than November 1, 2025.
Based on Findings 2 and 3
Financial Impact-Minimal
- R-3 The Civil Grand Jury recommends that HWS implement a policy requiring a brief review of the previous months' claims from a subrecipient as part of processing grant claims no later than January 1, 2026.
Based on Finding 5
Financial Impact-Minimal
- R-4 The Civil Grand Jury recommends that Riverside County implement mandatory fraud detection training for new employees processing grant claims and require annual fraud detection training for all current employees in this role no later than January 1, 2026.
Based on Finding 6
Financial Impact-Minimal to Moderate

REQUIRED AND INVITED RESPONSES

Under California Penal Code §933, governing bodies are required to respond to Civil Grand Jury report findings and recommendations within 90 days. California Penal Code §933.05 specifies how these governing bodies must respond.

Required Responses – Due in 90 Days

Locations	Findings	Recommendations
Riverside County Board of Supervisors	F-1 through F-6	R-1 through R-4

Invited Responses – Not Required

Locations	Findings	Recommendations
Director of HWS, County of Riverside	F-1 through F-6	R-1 through R-4
County Counsel, County of Riverside		R-4
District Attorney, County of Riverside		R-4

DISCLAIMER

The Riverside County Civil Grand Jury has made no attempt to determine the guilt or innocence of any parties in any impending criminal cases. This investigation was focused solely on the policies and actions of County employees in their processing of claims and responses to the discovery of discrepancies. This report is limited to the County's role, and does not address any of the issues that arose in the City of Palm Springs.

Report Issued Date: 6/18/2025

Report Public Date: 6/24/2025

Response Due Date: 9/24/2025