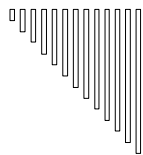


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Department Of Public Works  
Fraud Conference  
26 September 2007

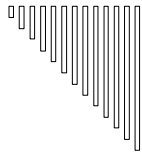
Procurement Fraud



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Procurement Fraud  
Process

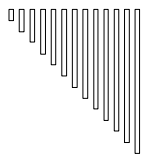
- Identify need
- Authorise order
- Place order
- Receive goods
- Store goods
- Receive invoice
- Authorise payment
- Prepare payment
- Make/post payment
- Documentation/risk at all stages



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## Procurement fraud Executing

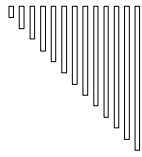
Ad-hoc  
Approved list  
Approved list and terms  
Approved list and quotes  
Proposals services  
Tenders



---

## Procurement Fraud What It Is

- Schemes attacking purchasing function
- Cause organization to buy goods/services that are non-existent, overpriced, or not needed
- Perpetrator submits false invoice or other support documentation
- Victim organization issues a cheque
- Perpetrator collects payment or shares with someone



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## Procurement Fraud Common Schemes

- Shell/front company schemes
- Non-accomplice vendor/supplier schemes
- Personal purchases with company funds

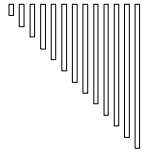


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## Procurement Fraud Shell Company Schemes

What is a shell/front company?

- Fictitious entity
- Created for purpose of committing fraud
- Only exist on paper
- Usually consist of bank account and post box
- Note: can be a real company but conflict of interest
- Genuine purchases or also false invoices

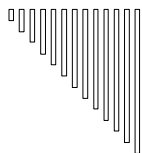


## Procurement fraud Shell Company Schemes

- Usually invoice for services, not goods
  - Services not tangible, harder to verify
  
- How shell company invoices get paid:
  - Perpetrator has authority to approve payment
  - Supervisor “rubber stamps” purchases
  - Perpetrator prepares bogus support documents
  - Collusion among several employees

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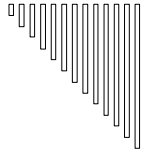
## Procurement fraud Shell Company Schemes

### Pass-through schemes:

- Variation of standard shell company scheme
- Perpetrator assigned to purchase goods/services for company
- Uses shell company to buy the items on credit
- Shell company sells items to employer at inflated price
- Pays off shell’s credit, excess is profit

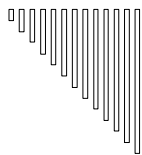
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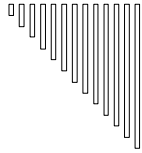
## Shell Company Schemes Countermeasures

- Question invoices that have residential address or post box for mailing address
- Look for invoices with lack of detail
  - Missing phone #, fax #, invoice #, VAT, etc.
- Investigate invoices with no VAT number
- Sort payments by supplier, look for:
  - Consecutive invoice numbers
  - Consistent payment amounts, round numbers



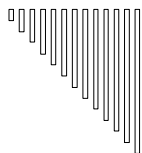
## Shell Company Schemes Countermeasures

- If suspicions about supplier:
  - Look up supplier in phone book other registers
  - Contact others in industry
  - Visit address to verify existence
  - Independently verify delivery before paying
- Periodically run comparison reports between supplier/employee addresses
- Maintain up-to-date supplier list
- Have a process for getting onto approved list



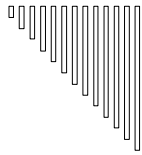
## Procurement Fraud Billing via Non-accomplice Suppliers

- Perp over bills company on behalf of existing supplier
- Supplier not involved in the scheme
- Two common techniques:
  - Pay-and-return schemes
  - Counterfeit invoices



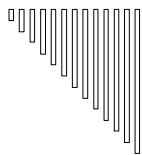
## Non-Accomplice Suppliers Countermeasures

- Sort invoices by supplier, look for unusual invoice numbers, change in address or style
- Mail cheques immediately after signing
- Restrict access to accounts payable records and addresses
- Investigate excessive purchases from particular supplier



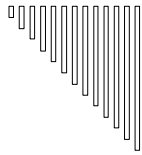
## Non-Accomplice Suppliers Countermeasures

- Independently spot-check purchases with suppliers
- Install system to prevent duplicate payments
- Require all incoming mail to be opened by mailroom; all incoming cheques logged (to prevent pay-and-return)
- Instruct bank not to cash cheques payable to organization



## Procurement Fraud Personal Purchases with Company Funds

- Perpetrator uses company cheques to buy personal items. Common examples:
  - Home supplies/construction
  - Side business
  - Pay medical, utility, credit card bills, etc.
- Merchandise may be returned for cash



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## Procurement fraud Personal Purchases with Company Funds

### Methods of payment:

- Perpetrator has approval authority for invoices
- Altered or bogus support documentation
- Initiate fraudulent purchase requisitions
- Buy on running accounts/purchase orders
- Use company credit card

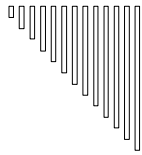


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## Procurement Fraud Red Flags

- Invoices cannot be traced to deliveries
- Multiple payments to single supplier on same date
- Pattern of purchases just below review level
- Unusually quick turnaround on invoices
- Departments/employees consistently over budget
- Payments to multiple suppliers for same product





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## Procurement Fraud Red Flags

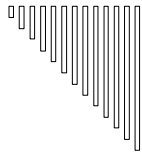
- Bid prices close together
- Small supplier/big contract
- Well known supplier not asked to tender
- Location supplier unusual
- No Christmas cards
- Supplier not known



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## Procurement Fraud Red Flags

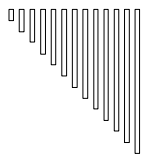
- Unclear reasons for selection
- Extra claims
- Changes in specifications
- Changes in price
- Invoices just below approval level



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## Procurement Fraud Red Flags

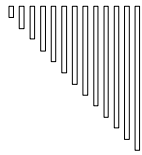
- Post office box addresses
- Resident off-shore
- Invoices soiled
- Hand delivered
- Various suppliers same stationery
- No VAT number
- No registration number
- No usual discounts



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## Tender Fraud Corruption

Can have it in all processes but tender more vulnerable because of the amounts

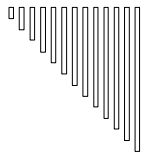


## Tender Fraud Corruption

Some statistics - international

- illicit drug trade \$400 billion
- illegal arms trade \$40 billion
- exotic animals flora \$12 billion
- profit from people smuggling \$3 billion - \$10 billion
- extent money laundering \$600 billion - \$1.3 trillion
- corruption between 5% and 10% of value
- \$8 billion bribes multi – national companies every year
- corruption has a major foreign component

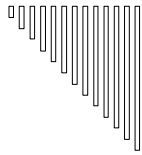
Corruption element facilitate hard crimes money laundering



## Corruption The Prevention And Combating Of Corrupt Activities Act 2004

What it is

- Giving; includes  
lending/granting/conferring/promise/procure or  
offer above
- Accepting; includes  
demanding/soliciting/promise/offer/ask  
for/seek/request/receiving or offer
- To whom it is not due; for something he should  
not do; or not doing something he should do



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## Corruption

### The Prevention And Combating Of Corrupt Activities Act 2004

#### Gratification

- Money, donation, gift, reward, property or interest, avoidance of a loss, liability, penalty, status, honour, employment, payment, release, any other service

#### Criminal offence

- Tender rigging
- Bid pooling/rotation

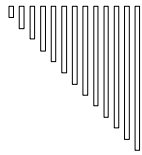


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## The Tender Process

### Risks

- Need identification
- Ask for proposals
- Receive proposals
- Go out on tender
- Receive tenders
- Award tenders/ not only risk area!!
- Enter into contract
- Manage contract
- Close contract

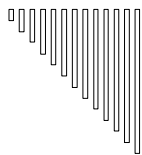


## Tender Fraud Red Flags Bidding Process

- Contracts not awarded to lowest bidder
- Unusual bidding patterns:
  - Winning bid is too high
  - Losing bidders become subcontractors
  - Predictable rotation of winners
  - Same calculations or errors on two or more bids
- Fewer bidders than expected respond to proposals

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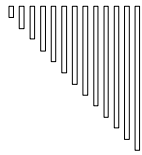


## Tender Fraud Red Flags Bidding Process

- Qualified contractors repeatedly fail to bid
- Appearance of unknown bidders
- Apparent leaking of bids:
  - Last bidder always wins
  - Contracting official extends bid date or accepts late bids
  - Winning bid is always just below next lowest bid
- Low bid awards followed by change orders that significantly increase price

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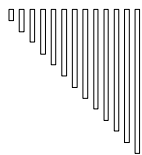


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## Tender Fraud Project And Contract risks

### Labour costs

- Difficult to control time allocated
- No third party verification
- Rely on individuals integrity
- Example of less security guards used than claimed
- Abuse of overtime



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## Tender Fraud Project And Contract Risks

### Material costs

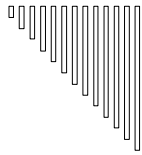
- direct and indirect
- issue two elements in contract fixed and variable
- charges by sub - contractors supervised contractor paid by client

### Consulting and professional fees

- Verification difficult quality and time

### Surplus inventory at end

- quantity, valuation, ownership



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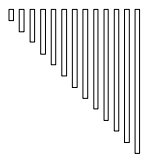
## Tender Fraud Corruption

### Selling information

- Not only evaluation criteria
- What else?

### Who can do it

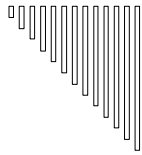
- Tender committee
- Who else ?



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## Tender Fraud Stop It Early

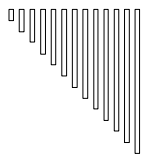
- Characteristics corrupt employees
- Characteristics corrupt suppliers
- Will you report it !!!!



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## Tender Fraud Characteristics of Corrupt Employees

- Close socialization with contractors
- Repeatedly makes excuses for poor performance by a contractor
- Living beyond means
- Under extreme stress, financial problems
- Assumes responsibilities above/below normal duties

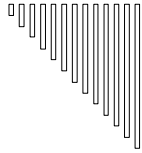


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## Tender Fraud Characteristics of Corrupt Employees

- Refuses to accept apparently desirable promotions
- Deliberate, repeated failure to enforce purchasing controls
- Insists that contractors use a certain subcontractor
- High turnover in contract and procurement department





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## Tender Fraud

### Characteristics of Corrupt Suppliers

- Routinely offer inappropriate gifts, provide lavish entertainment
- Continues to receive work despite poor past performance
- Persistent allegations of wrongdoing by employees, other vendors
- Repeated discrepancies between proposed/actual labor and materials costs