Case Studies in Procurement Fraud

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Torrance, California
March 22, 2013
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## Resources

www.deigroup.com
www.deigroup.com/ProcurementFraud

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<td>ACFE RTTN 2012</td>
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<td>OECD Report April 2009</td>
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Categories of Fraud

- Asset Misappropriation
  Involves the theft or misuse of organization’s assets

- Corruption
  Fraudster wrongfully uses their influence in a business transaction to procure benefit for themselves

- Fraudulent Statements
Occupational Fraud and Abuse Classification System

**Corruption**
- Conflicts of Interest
  - Purchasing Schemes
  - Sales Schemes
- Bribery
  - Invoice Kickbacks
  - Bid Rigging
- Illegal Gratuities
- Economic Extortion

**Asset Misappropriation**
- Asset/Revenue Overstatements
  - Timing Differences
  - Fictitious Revenues
  - Concealed Liabilities and Expenses
  - Improper Asset Valuations
  - Improper Disclosures
- Asset/Revenue Understatements
  - Timing Differences
  - Understated Revenues
  - Overstated Liabilities and Expenses
  - Improper Asset Valuations

**Financial Statement Fraud**
- Cash
  - Theft of Cash on Hand
    - Slimming
    - Cash Larceny
  - Theft of Cash Receipts
    - Sales
      - Unrecorded
      - White-off Schemes
      - Undervalued
      - Lapping Schemes
      - Concealed
    - Receivables
      - Undervalued
      - Lapping Schemes
      - Undervalued
    - Refunds and Other
    - Undervalued
- Inventory and All Other Assets
  - Misuse
  - Larceny
    - Asset Requisitions and Transfers
    - Fake Sales and Shipping
    - Purchasing and Receiving
    - Undisclosed Larceny
  - Misuse
  - Larceny
Case Study #1

- County Government-Northwest
Case Study #2

- Public Utility-Midwest
Red Flags

- Repeated awards to the same entity.
- Competitive bidder complaints and protests.
- Complaints about quality and quantity.
- Multiple contracts awarded below the competitive threshold.
- Abnormal bid patterns.
- Agent fees.
- Questionable bidder.
Red Flags (2)

- Awards to non-lowest bidder.
- Contract scope changes.
- Numerous post-award contract change orders.
- Urgent need or sole source.
- Questionable minority/disabled ownership.
Behavioral Red Flags

- Living Beyond Means
- Financial Difficulties
- Close relation w/Vendor/Customer
- Control Issues-Unwilling to share duties or allow access to work area
- Divorce/Family Problems
- Wheeler/Dealer Attitude
- Suspiciousness/Defensiveness
- Addiction Problems
Remediation of Fraud Losses

- Fidelity Bond
- Commercial Insurance
- Criminal Restitution Order
- Civil Litigation
The Takeaways

- Forensic Accounts can review and evaluate claims of financial and occupational fraud prior to referral for criminal investigation or prosecution.
- Forensic Accounts can assist in the analysis and interpretation of accounting, financial, and general business records in matters that are currently being investigated and/or prosecuted.