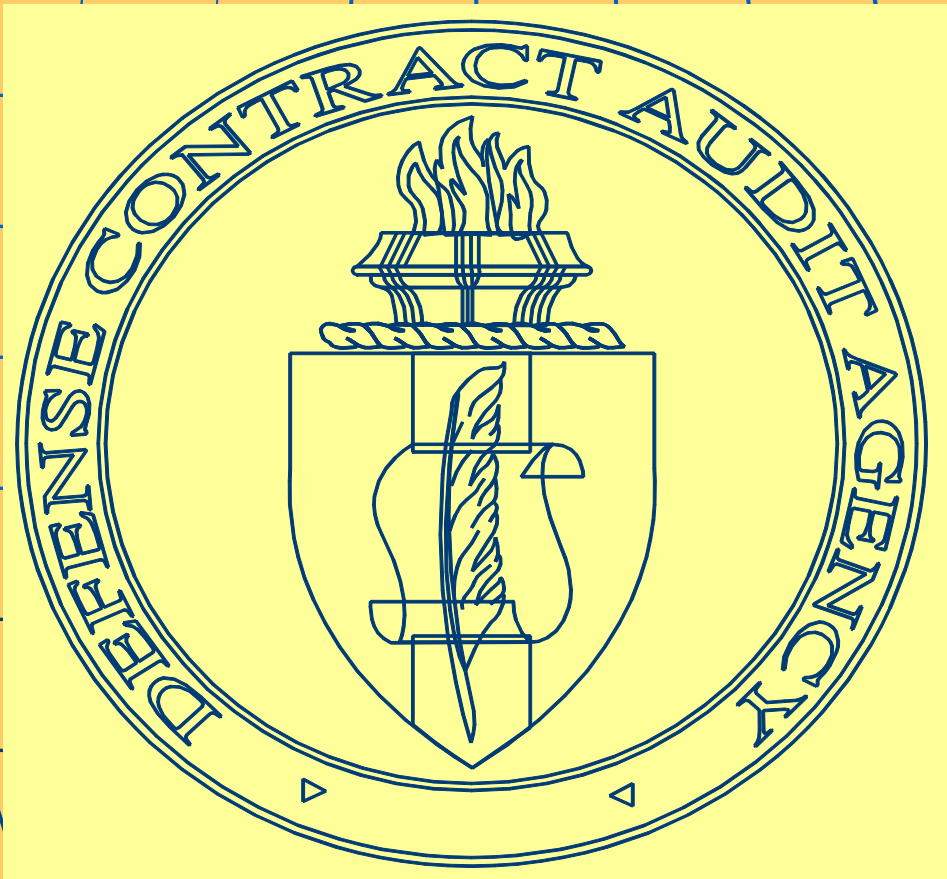


# **FRAUD AWARENESS**

## **An Auditor's Perspective**





- About DCAA
- Directions/Map
- Audit Guidance
- DCAA Publications
- Freedom of Information Act
- Privacy Act
- Links to Other Web Sites
- DCAA Points of Contact
- Career Center
- Audit Office Locator
- Equal Employment Opportunity Data Posted Pursuant to the No Fear Act
- Home



The Defense Contract Audit Agency, under the authority, direction, and control of the [Under Secretary of Defense \(Comptroller\)](#), is responsible for performing all contract audits for the Department of Defense, and providing accounting and financial advisory services regarding contracts and subcontracts to all DoD Components responsible for procurement and contract administration. These services are provided in connection with negotiation, administration, and settlement of contracts and subcontracts. DCAA also provides contract audit services to some other Government Agencies.

[Site Index / Agency Structure](#)

# DCAA

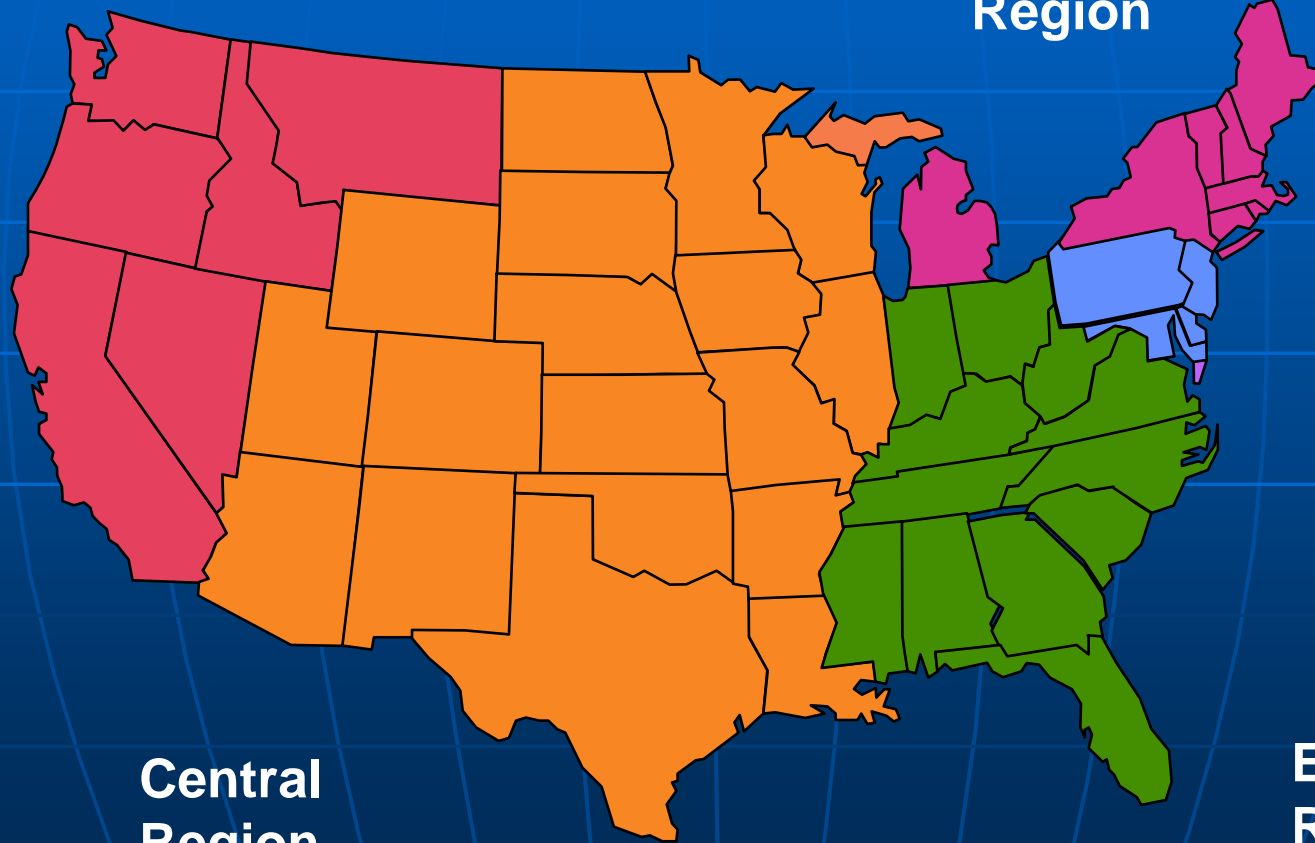
Western  
Region

Northeastern  
Region

Mid-  
Atlantic  
Region

Central  
Region

Eastern  
Region



# Investigative Teams by Region

## Western Region

Zeny Pangilinan

Washington - Nevada

714-228-7025

## Eastern Region

Gary Burleson

Ohio – Florida

770-319-4492

## Mid-Atlantic Region

George Crossley

Virginia – Pennsylvania

215-597-0483

## Central Region

Tom Flynn

Wyoming – Louisiana

972-753-2529

## Northeastern Region

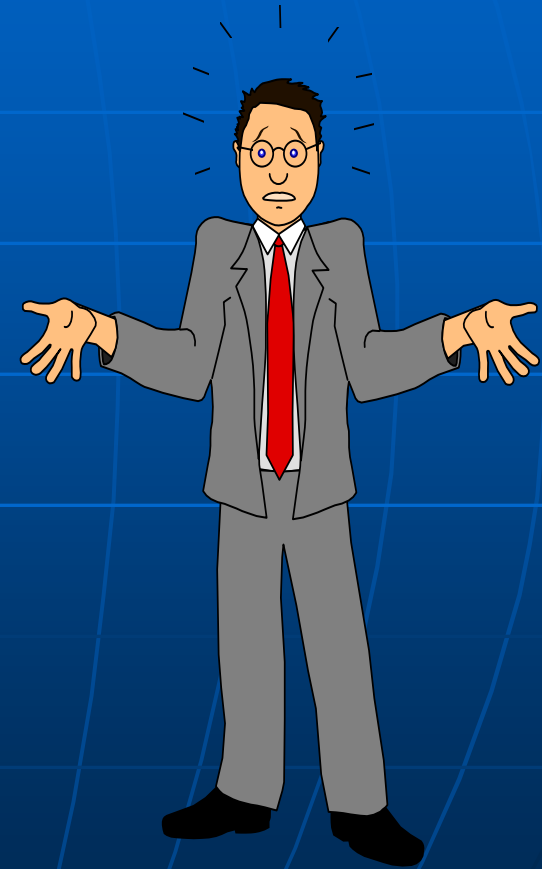
Russ Piselli

New York – Maine

978-551-9805

# Common Rationalization about FRAUD

- **"Everybody Does It"**
- **"The Government Can Afford It"**
- **"It's For a Good Purpose"**
- **"It's Not That Serious"**
- **"I Deserve It"**
- **"Victimless Crime"**



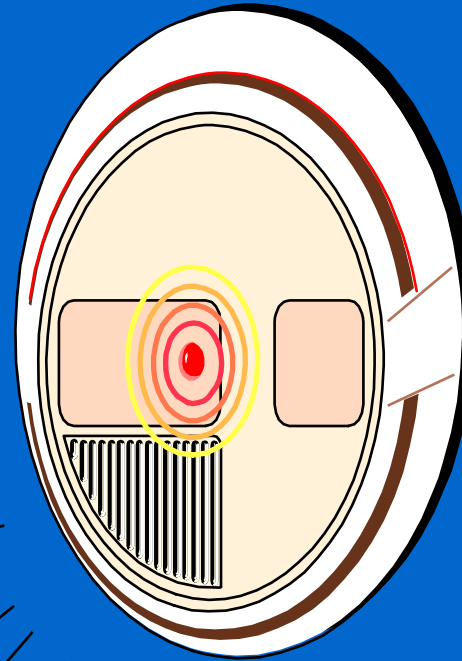
# FRAUD



- 💣 A material statement of fact
  - 💣 which is false
  - 💣 and known to be false.

# FRAUD PROFILE

- ❑ Motivation
- ❑ Rationalization
- ❑ Opportunity



# Management Characteristics and Influence over the Control Environment

- Ineffective or no communication of company values
- History of fraud
- Failure to correct previously reported conditions
- Inadequate monitoring of significant controls
- Ineffective accounting staff
- Domination by one person or a small group
- A significant portion of compensation / bonus based on profits
- High turnover of key people
- Excessive management participation in accounting matters

# Industry Conditions

- New regulatory requirements
- High degree of competition
- No competition at all
- Declining market conditions
- Rapid changes in the industry
- Mix of commercial, fixed price, cost-type contracts

# Operating Characteristics and Financial Stability

- Weak financial condition
- Inadequate internal controls
- Inadequate accounting system / records
- Inadequate time keeping system
- No internal / external audits
- Significant related party transactions
- Overly complex organizational structure

# Fraud Indicators

## Direct and Indirect Labor

- **Distinctive charging patterns or significant shifts in charging**
- **Decrease in charges to projects/contracts that are overrun or near ceilings**
- **Disproportionate percentage of indirect employees**
- **Large scale reclassifications between direct & indirect**
- **Weak internal controls over T/C preparation**

# Fraud Indicators

## Direct and Indirect Labor

- **Actual hours/\$ consistently at or near budgets**
- **Significant use of adjusting JEs to shift or transfer costs**
- **Employee's time charges inconsistent with associated travel**
- **Actual labor hours and/or categories inconsistent with proposed**
- **Program management charged direct on cost-type contracts and indirect on FP and Cmcl**

# Fraud Indicators - Material

- **Actual requirements significantly less than proposed**
- **Failing to disclose lowest vendor bids**
- **Failing to disclose Make vs. Buy analysis/decisions**
- **Poor physical controls over material**
- **Significant increases to scrap, rework or inventory write-off**
- **Significant purchases just below the \$\$ threshold for supervisory approval**

# Fraud Indicators - Material

- **New purchase or Repurchase of items recently written off**
- **Significant use of JEs to transfer actual Mat'l:**
  - **from gov't cost type contracts to FP, Cmcl & other "at-ceiling" cost type contracts**
- **Significant use of JEs to transfer Mat'l costs:**
  - **from FP & Cmcl contracts to cost-type, &/or**
  - **at significantly higher/lower costs than actually incurred**

# **Fraud Indicators**

## **Subcontractors/Vendor Kickbacks**

- **Poor internal controls in purchasing, receiving and storing**
- **Lack of separation of duties between purchasing and receiving**
- **No policy to rotate buyers within the purchasing dept.**
- **Nonexistent or poor business ethics policies**
- **Ineffective or poorly enforced policies on conflict of interest and acceptance of gratuities**

# Fraud Indicators

## Subcontractors/Vendor Kickbacks

- **Purchasing employees living beyond their means**
- **Lack of procedures and/or buyers circumventing procedures for competition of subcontracts**
- **Poor documentation of award decisions**
- **Indications of awards on a “rotational” basis**
- **Awards of subcontracts to other than lowest bidder**
- **One-time payments to unusual vendors**

# Fraud Indicators

## Consultants & Professional Services

- **No formal Agreements or Contracts**
- **Agreements or Contracts prepared with very vague language**
- **Invoices for “services rendered” have no meaningful supporting documentation such as detailed invoices, trip reports, written studies or final reports**

# Fraud Indicators

## Consultants & Professional Services

- **Services paid for are improper in some way:**
  - **used to obtain, distribute or use information or data protected by law or regulation**
  - **used to influence the solicitation, evaluation, negotiation and/or award of a contract, modification or claim**
  - **used to obtain services that violated a federal, state or local statute or regulation**
  - **used to obtain services resulting in improper business practices or conflict of interest**

# **Fraud Indicators**

## **Indirect Cost Submissions**

- **Existence of expressly unallowable costs**
- **Existence of costs previously determined or mutually agreed to be unallowable and/or non-reimbursable. This may be done in an overt way, or in a covert way by changing account nomenclature or charging the costs to a different account in order to conceal them**

# Fraud Indicators - General

- **Original documentation consistently unavailable. Contractor provides copies**
- **Copies often of poor quality or illegible**
- **Where originals are available, may contain unauthorized changes evidenced by different print or odd spacing**
- **High incidence of defective pricing**
- **“Gaming” disclosed accounting practices to enhance competitive advantage**
- **Selective disclosures**
- **Double-counting costs as direct and indirect**

# **FRAUD AWARENESS**



## **Fraud Related Laws**

 **Civil False Claims**

 **False Statements**

 **Criminal False  
Claims**

 **Conspiracy**

 **Conspiracy to  
make False Claims**

 **Mail Fraud/Wire  
Fraud**

 **Major Procurement  
Fraud**

 **Obstruction of  
Federal Audit**

 **Anti-Kickback Act**

# Skills of Fraud Auditors

- **Designing fraud scenarios, that is, thinking like a criminal**
- **Reconstructing financial transactions through third party sources**
- **Documenting a fraud case for criminal or civil purposes**
- **Gathering and preserving evidence for trial**

# Ten Ways To Use Auditors

- ★ **Assisting in preliminary case assessment**
- 🕒 **Developing and reviewing subpoena(s)**
- 🕒 **Identifying, locating, and organizing pertinent documents for evidence**
- 🕒 **Developing interview questions**
- 🕒 **Participating in interviews (financial and accounting related)**

# Ten Ways To Use Auditors (cont.)

- 🕒 **Reviewing and analyzing documents**
- 🕒 **Organizing and Converting databases**
- 🕒 **Calculating damages and “ability-to-pay”**
- 🕒 **Preparing charts and exhibits for trial**
- 🕒 **Testifying as fact and expert witnesses**

# *Labor Substitution*

**Customer:** Naval Criminal Investigative Service

**Allegation:** Contractor billed the gov't for labor hours worked by employees who were not qualified for the labor categories under which they were billed.

**Recovery:** Settlement agreement for \$759,430.

# False Claim/Defective Pricing

**Customer:** DCIS and Department of Justice

**Allegation:** Contractor violated Truth in Negotiations Act, (TINA) by withholding performance related information

**Settlement:** Contractor agreed to pay \$39 million to the government

# *Commercial Costs*

**Customer:** Defense Criminal Investigative Service, Department of Justice

**Allegation:** Contractor charged the research and development costs of a commercial contract to government overhead accounts

**Recovery:** Settlement agreement for \$60 million

# QUESTIONS



**THE END**

**Defense Contract Audit  
Agency**

**Eastern Region**

**Investigative Support Division  
thanks you for your attention**