

Identifying Indicators of Fraud

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Today's Seminar

- Define Fraud
- Types of Fraud
- Indicators of Fraud
- Protection Against Fraud
- Comments / Questions

What is Fraud?

*Definition:

- 1.a) deceit; trickery; cheating
- 1.b) intentional deception to cause a person to give up property or some lawful right
2. something said or done to deceive; trick
3. a person who deceives or is not what he pretends to be; imposter; cheat

Types of Fraud

Government Related

- Internal - Employee Fraud
 - ✓ Falsified Hours &/or Expenses
 - ✓ Non-Performance During Working Hours
 - ✓ Fund Embezzlement
 - ✓ Bribery / Kick Backs
 - ✓ Moonlighting
 - On the Job
 - Conflict of Interest
 - ✓ Material Thefts
 - ✓ Improper Surplusing State Owned Properties
 - ✓ IT & Engineering Resources
 - Intellectual Property
 - Personal Use of Equipment & Network

Types of Fraud

Government Related:

- External - Contractor Fraud
 - ✓ Delivery of Services
 - Not within Contract Specifications
 - Poor Workmanship
 - ✓ Material Shortages
 - Non-delivery
 - Theft
 - ✓ Non-Authorized or Qualified Work Force
 - ✓ High Turnover in Key Personnel
 - ✓ Falsified Hours &/or Expenses

Indicators of Fraud

Contractor Charges

- Sudden, significant shifts in charging.
- Weak internal controls over labor charging
 - Time cards:
 - Signed in advance
 - Filled in by Supervisor
 - Filled in pencil
 - Filled in at the end of the pay period
 - Numerous Corrections and alternations made to Employee's Timesheet

Indicators of Fraud

Vendor Red Flags

- Poor contractor internal controls over key functional areas, such as purchasing, receiving and storing.
- Lack of segregation of duties.
- None or few contractor policies on ethical business practices.
- Purchasing employees maintaining a standard of living obviously exceeding their income.
- Poor or no established contractor procedures for competition of subcontracts.
- Lack of competitive awards
- Non-award of subcontract to lowest bidder.
- One-time payment for services or materials usually bought from another vendor. The kickback recipient could be using the company to obtain his payoff.

Indicators of Fraud

Transfer of Costs

- Transfers from Lump Sum contracts to Cost Plus contracts
- Transfers from one contract line item or work order to another line item or work order on the same contract but with different specifications.
- Services paid for violated a Federal, state, or local statute or regulation.

Consulting / Professional Services

- No formal signed agreements or contracts; however, large sums paid for “services rendered” based on invoices with few specifics.
- Formal agreements or contracts exist but are vague as to services to be rendered, and no other documented support, such as detailed invoices, trip reports or studies, exists to justify the expenses.

Indicators of Fraud

Inventory / Material Transfers

- Materials ordered and charged in excess of contract requirements.
- Billings for actual material costs far in excess of the agreed upon material costs.
- Later billings showing a downward adjustment in material costs as labor / overhead cost increase.

Improper Billing

- Supporting documents missing or unavailable for review.
- Only copies of documents available for review.
- Slow in paying suppliers or non-payments to suppliers or employees.
- Billing costs that were not incurred on the contract.
- Excessive Management Participation in Accounting Books

Indicators of Fraud

Contracts

- Little or no physical progress even though significant costs have been billed and the contract delivery schedule indicates that significant physical progress should have occurred.

Standard Cost Deviations

- The lack of a clear audit trail to verify the propriety of direct charges, such as labor, material and other direct costs.
- Weak internal controls that allow numerous opportunities to adjust direct charges, such as duplicate employee identification cards to charge labor hours on automated systems.

Indicators of Fraud

Labor Charges

- Significant differences between proposed and actual unit costs or quantities with no corresponding changes in work scope or job requirements.
- Specific individuals proposed as "key employees" not working on the contract.
- Employees' skills do not match the skill requirements as specified for their labor category or the contract requirements.
- Employees typically charged indirect by the company being charged direct to the contract.
- Partners., officers., supervisors. and other high level employees. time being charged in noncompliance with the contract terms or with the company's established accounting policies and procedures.

Indicators of Fraud

Document Falsification

- Original documentation consistently unavailable for the auditor's review.
- Consistently poor, illegible copies of supporting documentation.
- Different supporting documents provided for the same item with unit prices varying widely for the same part, for no obvious reason.
- Changes to the original documentation that do not appear to be authentic, such as different print or incorrect spacing.
- Information on the original document does not match information obtained from third party sources, such as confirmation letters to vendors/subcontractors or assist audits.

Indicators of Fraud

Duplication of Costs

- Repetitive noncompliance with the contractor's disclosed bidding/estimating practices.
- Transfers from cost-type to fixed price work orders

Excess / Residual Inventory

- Poor internal controls over physical inventories.

Disclosures

- Continued failure to make complete disclosure of data known to responsible personnel.
- Altered or false documents.

Indicators of Fraud

Pricing Deficiencies

- High percentage of sole source (noncompetitive) subcontract awards with poor explanations/documentation.
- Pattern of subcontractor employees buying contractor employees lunches, dinners and/or other items.

Fraud Protection / IDOT's Strategy

- Training Managers & Employees
 - Audits
 - External
 - Internal
 - Initial Risk Assessment
 - Management Initiated
 - Post Audits
 - Adequate Documentation
- Training / Cross Training
 - Learn Contract
 - Identifying Anomalies
 - Misuse of resources
 - IT Specific Fraud Awareness Training
 - Security Awareness Campaign
 - Audits
 - Pre Award
 - Post Award (historical or problem areas)
 - Progress Reviews
 - Onsite Monitoring
 - Final Audit
 - Documentation
 - Strict Invoice Reconciliation Processes
 - Verify Timesheets
 - Verify travel costs (receipts & proof of payment)

Fraud Protection / IDOT's Strategy

- Contract Monitoring
- Contract Monitoring (onsite & work in process)
 - Adequate Documentation
 - Strict Invoice Reconciliation Processes
 - Verify Timesheets
 - Verify travel costs (receipts & proof of payment)

Fraud Protection / IDOT's Strategy

- Security

- Confidential Policies

- Security

- Restricted Access
- Electronic Surveillance
- Building Secure IT Solutions
- Secure Access Entry

- Confidential Policies

- Passwords
- Masked SSN's,
- Locked Recycle Bins
- Strict Procurement Policies & Procedures
- Updating all Policies & Procedures related to Confidential Information

Fraud Protection / IDOT's Strategy

- Division of Responsibilities
- Productivity
- Other Strategies

- Division of Responsibilities
 - Redundant Checkpoints
 - Segregation of Duties
- Productivity
 - Periodic Inventory & Reconciliation Processes
 - Measuring Project Performance / Productivity
- Other Strategies
 - Fuel Fraud Prevention
 - Personal PINS
 - Personal Assignment of Vehicles
 - Public Reports of Abuse

Conclusion

- Questions / Comments