Contract and Procurement Fraud

Detection and Prevention
Introduction

- Procurement schemes have certain characteristics that make them especially difficult to detect and prevent.
- Organizations can protect themselves by:
  - Instituting effective ethics and compliance programs
  - Establishing tailored, proactive procurement fraud detection and prevention programs
The Seven Elements of an Effective Ethics and Compliance Program

1. Establishing standards and procedures
2. Assigning responsibility for compliance
3. Conducting due diligence in hiring/delegation
4. Communicating standards and procedures:
   • Training programs
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5. Achieving compliance:
   • Monitoring and auditing systems
   • Reporting system

6. Enforcing standards through disciplinary action

7. Appropriately responding to detected offenses
COSO/ACFE Principles of Effective Fraud Risk Management

Ongoing, comprehensive fraud risk management process:

1. Establish a fraud risk management policy as part of organizational governance
2. Establish a fraud reporting process and coordinated approach to investigation and corrective action
3. Select, develop and deploy preventive and detective fraud control activities
4. Monitor the fraud risk management process, report results and improve the process
5. Perform a comprehensive fraud risk assessment

Source: COSO/ACFE Fraud Risk Management Guide
Establishing a Procurement Fraud Detection and Prevention Program

▪ A proactive procurement fraud detection and prevention program includes:
  • Fraud risk assessments
  • A tailored anti-fraud program
  • A response plan that outlines how to react when suspicious activity arises
Conduct a Fraud Risk Assessment

- To help an organization’s leadership recognize what makes it most vulnerable to fraud
- Should address the nature and extent of the procurement fraud risks to which an entity is exposed
- Should be the foundation for internal controls and procedures
Preliminary Issues

- Who will perform the assessment?
- To whom will the assessment be reported and how?
- How can technology and data analytics be used to support the risk assessment process and ongoing compliance efforts?
- How will the assessment results be integrated into the company’s overall anti-fraud efforts?
- How will the assessment results be used to fine-tune fraud-prevention programs?
Develop a Framework for Evaluating Procurement Fraud Risks

▪ Submit a preliminary request list.
▪ Identify the risks.
▪ Identify potential fraud schemes relevant to the risks.
▪ Obtain information.
▪ Evaluate and prioritize the risks.
▪ Implement mitigating controls.
Develop a Tailored Anti-Fraud Program

- Anti-fraud policies and procedures
- Ethical tone at the top
- Employee education
- Annual review
Develop a Tailored Anti-Fraud Program

- Management oversight
- A reporting system
- Process-level internal controls
- Monitoring activities
Develop a Tailored Anti-Fraud Program
Establish a Response Plan

▪ Outline how to react when suspicious purchasing-related activity arises.
▪ Identify who in the organization handles various fraud matters under different circumstances.
Establish Reporting Protocols

- Ensure that designated executives are notified immediately to enable a prompt response.
- Indicate how to communicate the incidents to the appropriate level of management.
Identify Factors Used to Conduct a Preliminary Investigation

Possible considerations include:

- The credibility of the evidence
- The subject of the allegation
- The seriousness of the allegation
- The levels of employees allegedly involved
- The government’s involvement
Install Measures to Preserve Relevant Information

- Litigation hold
- Adverse consequences of failing to preserve relevant information:
  - Questioning the integrity of the fraud investigation
  - Monetary fines and sanctions
  - Adverse inference jury instruction sanctions
  - Dismissal of claims or defenses
Consider the Need for Voluntary Disclosure

- In some jurisdictions, voluntarily reporting misconduct can result in reduced fines and other forms of leniency.