

## STEPS TO DETECT AND PREVENT PROCUREMENT FRAUD

More than any other internal nefarious musing, procurement fraud is the most tempting because of its appearance of easy set up for those in positions of authority. It is also more susceptible to collusion than any other type of fraud.

It can be big bucks. Here are a few cases that should send shivers through the bones of any organization:

ORGANIZATION	<sup>1</sup> ALLEGED FRAUD
Department of National Defence - Canada	Invoicing fraud estimated at \$105 million; three people involved – one internally
Buca (US based restaurant chain)	Equipment and consulting billing fraud estimated at \$1 million – two internal people
New York City Office of Chief Medical Examiner	Shadow companies and fake contract bids – alleged \$8 million - two internal people

### PREVENTION STEPS

1. Create an “Approved Vendor” list and have it and its supporting methods reviewed by the external auditors twice a year; high on the list for internal audit
2. Print and Review for Reasonability a list of total payments by vendor 1/4ly
3. Watch for:
  - a. Vendors with only a post office box address
  - b. Invoices that are photocopies, not originals
  - c. Invoices that have not been folded (they haven't arrived in the mail)
  - d. Invoices that have been coded to numerous bookkeeping accounts (the perpetrator is spreading the amounts to minimize the effect)
4. Internal Control Reviews (particularly segregation of duties from custody of assets or authority to control assets {especially cash} for:
  - a. Accounts Payable
  - b. Authorization process
  - c. Issuance of checks
  - d. Accounts receivable credit memos
5. Establish a Hot Line for Whistle Blowers
6. Be Aware of employees who have high lifestyles {check the parking lot for high priced vehicles, check to see if any employee lives in a mansion}; or who may be prone to fast roulette and slow horses.
7. Get insurance

Be paranoid.

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<sup>1</sup> Source: Baseline Magazine June 2006 “Inside Job” page 32