



The Tangled Triad

DECODING THE FRAUD TRIANGLE IN
PROCUREMENT , PAYABLES, AND PCARDS

Let's talk about FRAUD!



Fraudulent Schemes



Assessing and
Identifying Risks

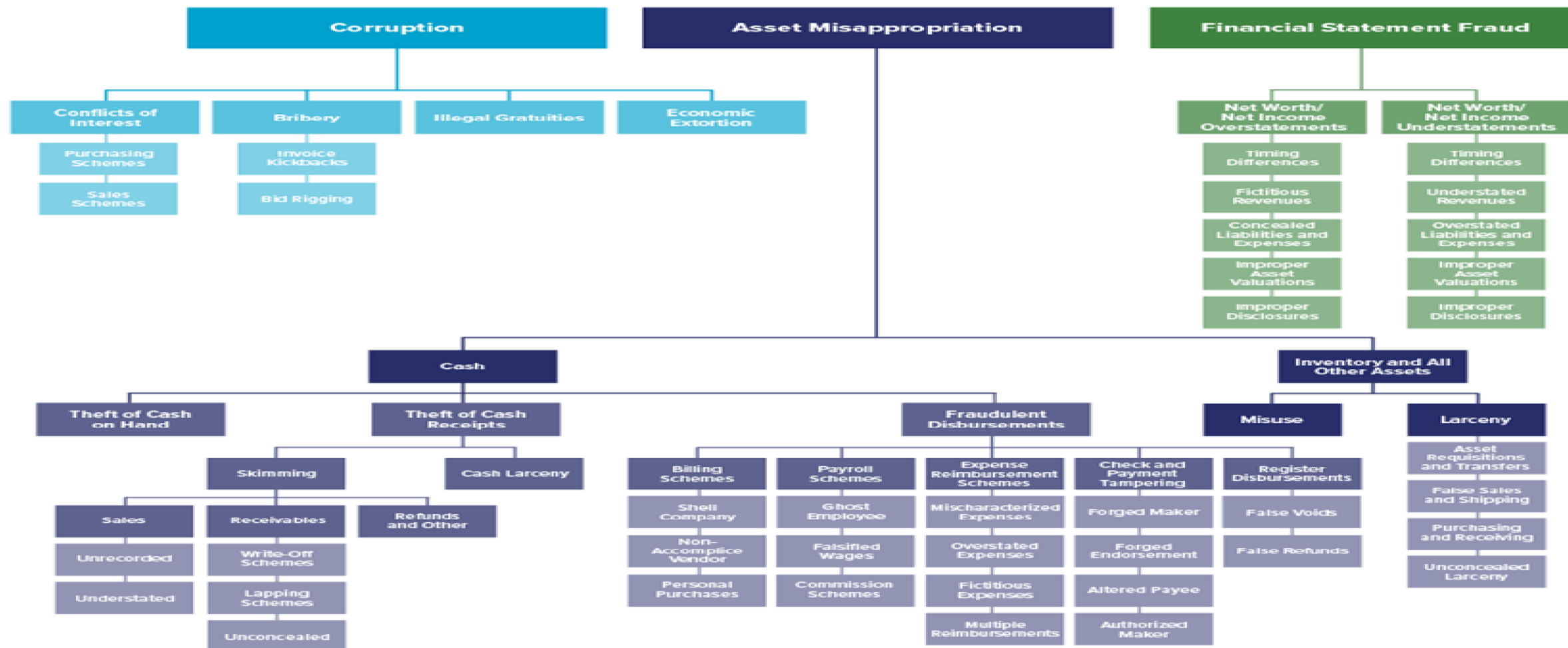


Internal Controls &
Prevention



THE FRAUD TREE

OCCUPATIONAL FRAUD AND ABUSE CLASSIFICATION SYSTEM



Understanding Fraud in Public Procurement

WHAT, WHO AND WHY?

The What...

Deliberate deception for financial or personal gain

- Financial Impact
 - Public procurement spend ~ 12% of global GDP
 - Global aggregate loss ~ \$3.7 trillion
 - Government Entities are 2nd most frequent victims
 - Undetected for 12 - 18 months
 - Average Loss ~ \$8,300/month

The Who...

Situational Fraudster

Deviant Fraudster

Multi-Interest Abuser

Well-intentioned
noncompliant employee

Disengaged noncompliant
employee



The Why...

The Fraud Triangle:

A framework for spotting high-risk fraud situations



RED FLAGS



Living beyond means (39%)

Financial difficulties (25%)

Unusually close with vendor (20%)

Excessive control issues

Recent personal issues

Fraud in Procurement & Contracts

EXPOSING THE PITFALLS

Common Procurement Fraud

- ▶ Shell Companies
- ▶ Pass-Through Schemes
- ▶ False Quotes
- ▶ Inactive Vendor Files
- ▶ Kickbacks
- ▶ Collusion / Bid Rigging
- ▶ Conflicts of Interest
- ▶ Change Orders

RED FLAGS



Sole Source Contracts

Split Orders

Bypassed Processes

Access to vendor files

Fraud in Payroll, Payables, and Pcards

SCHEMES, SIGNS, AND SAFEGUARDS

Common Fraud Schemes

- ▶ Ghost Employees
- ▶ Falsified Timecards
- ▶ Duplicate / Additional Paychecks
- ▶ Falsified Invoices
- ▶ Cash Skimming or Larceny
- ▶ Check Fraud
- ▶ Expense Reports / Reimbursements
- ▶ Asset misappropriation

Common P-card Fraud

- ▶ Billing sub-schemes
 - ▶ Missing receipts
 - ▶ Non-Itemized Receipts
 - ▶ Similarly formatted receipts
 - ▶ Delayed reconciliation
 - ▶ Co-mingling personal and business accounts
- ▶ Data Analytics for Detection
 - ▶ Unapproved merchants
 - ▶ Round number transactions
 - ▶ Split transactions
 - ▶ Transactions outside normal business hours
 - ▶ Repeat transactions

RED FLAGS



Unusual invoice details

Vendor irregularities

Check inconsistencies

External complaints regarding payments

Employee behavior

Can you find the fraud?



Illinois Department of Transportation

Invoice

City of Dixon
121 W 2nd
City Clerk
Dixon, IL 61021

INVOICE NO. 101492
RESP. CODE 8040
INVOICE DATE 06/22/2007
REVENUE CODE 6305
AUDIT NUMBER
PAYER NUMBER 06614

EXPLANATION OF CHARGES

PAY FROM THIS INVOICE

LOCATION: IL 28 & Bloody Gulch Road
LOCAL SECTION:
ROUTE: FAP 316
SECTION: 101TS
COUNTY: Lee
JOB NO.: C-92-110-06
PROJECT NO.: HS-0316/031/
CONTRACT NO.: 64C26
DISTRICT: 2

AMOUNT

The Agreement executed 5/19/2006 between City of Dixon, and the State of Illinois provides that the city will reimburse the State for part of the construction costs.

FINAL CITY SHARE:

LS30L01 @ 5%	\$146,139.04	\$7,306.95
Plus engineering @ 15%	\$7,306.95	\$1,096.04
City of Dixon share	\$8,402.99	

Payment Due Date 07/06/2007 TOTAL DUE \$8,402.99

PLEASE MAKE CHECK PAYABLE TO TREASURER, STATE OF ILLINOIS

MAIL TO: Illinois Department of Transportation
Room 322, Harry R. Hanley Building
2300 So. Dirksen Parkway
Springfield, IL 62764

INQUIRIES CONTACT: Sunday Odele at 217/785-4817.

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INVOICE

DIXON, CITY OF
C/O City Clerk
City Hall
Dixon
IL 61021

INVOICE NO. 78947
RESP. CODE 8040
INVOICE DATE 11/15/03
REVENUE CODE 6305
AUDIT NUMBER
PAYER NUMBER 06614

EXPLANATION OF CHARGES

PAY FROM THIS INVOICE

LOCATION: Route 26 & South Galena Avenue
LOCAL SECTION:
ROUTE : FA316
SECTION : 101RS-3
COUNTY : Lee
JOB NO. : P-92-105-98
PROJECT NO.: PAS-02-39-02/000
CONTRACT NO.: 64362

Misspelling

Font doesn't
match real
invoice

The Agreement executed between DIXON, CITY OF, and the State of Illinois provides that the city will reimburse the state for part of the construction costs.

CITY SHARE: \$1,250,000.00

Upon Award

Even dollar
amount

Payment Due Date: 11/01/03 NOW DUE \$500,000.00

PLEASE MAKE CHECK PAYABLE TO TREASURER, STATE OF ILLINOIS
AND MAIL TO: Illinois Department of Transportation
Room 322, Harry R. Hanley Building
2300 So. Dirksen Parkway
Springfield, IL 62764

Phone
number
deleted

397 - 11/24/03
a/c # 720037

Bal. 235,000



Internal Controls and Corrective Actions

ALWAYS ASSESS AND ADJUST!

Tools to Prevent Fraud



Why Internal Controls?

Importance of Internal Controls

- ▶ Compliance with Applicable Laws and Regulations
- ▶ **A**ccomplishment of the Entity's Mission
- ▶ **R**elavant and Reliable Financial Reporting
- ▶ **E**ffective and Efficient Operations
- ▶ **S**afeguarding of Assets

Consequences of Weak Controls

- ▶ Business interruptions
- ▶ Bad Management Decisions
- ▶ Fraud, embezzlement and theft
- ▶ **Sanctions**
- ▶ Excessive Costs / Lost Revenue
- ▶ Loss, Misuse or Destruction of Assets

How can YOU make a difference?

- ▶ Assess the internal controls
 - ▶ Segregation of Duties
 - ▶ Approval levels / oversight
 - ▶ Vendor file audits
- ▶ Consider the entire process
 - ▶ Are there steps that can be added or simplified?
 - ▶ Things you can automate – or too much automation?
- ▶ Consider the timelines
 - ▶ Rushed procurements lead to missed steps
 - ▶ Allowing time for reviews?
- ▶ Communicate
 - ▶ Updates / Changes
 - ▶ Staff training
 - ▶ Risk Register

Almost Unbelievable Stories

Robert Banks, a carpenter and locksmith for the Plainfield Board of Education, admitted to defrauding his employer, stealing nearly \$20,000. In his role, Banks was responsible for purchasing carpentry supplies from vendors. The board entered into contracts with a vendor, Bayway Lumber, to purchase certain products at a discounted price. From 2007–2015, Banks worked with the employees of Bayway to overbill the board, receiving kickbacks from the employees of Bayway. At times, Bayway charged the board for items that were never received.

Grant Devillez, (CT) pleaded guilty to ten counts of wire fraud, admitting that, from at least February 2016 through July 2018, he engaged in a scheme to defraud Décor Craft, Inc., of nearly \$303,000, by transferring funds from the business' bank account to his own personal bank accounts; to creditors for personal bills; and to the bank account of another individual. Mr. Devillez admitted that when given access to the business' bank account to make authorized payments to vendors, he often made partial payments or no payments at all, instead transferring the funds for his own use. To cover his criminal conduct, he altered company records to reflect that full payment had been made to the vendors.

Travis Braddy (Richland One School District, Columbia SC) outraged taxpayers when he was allowed to resign following an investigation that revealed he used his pcard to pay for personal hotel stays, rental cars, and no-bid supply orders from red-flagged vendors. A former prosecutor in the area also spent time in prison for using his pcard to pay for pricey meals, Christmas parties, and luxury Uber rides. His assistant also pleaded guilty to using her pcard to pay for plane tickets to see family and orthodontist visits. Audits revealed of the district's \$2.2 million pcard spend, about \$148,000 was paid to forbidden vendors.

Rita Crundwell (IL) defrauded the city of over \$53 million largely with fraudulent invoices she developed for phony projects. She attempted to make these invoices appear authentic, however, these invoices did not adhere to the same standards as authentic invoices and were missing key information. Investigators even found an invoice dated as November 31, 2004 from the Illinois Department of Transportation—a date which does not exist



Thank You!

KELLY VICKERS, COMPTROLLER

WV SOLID WASTE MANAGEMENT BOARD

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