

# PICS



**PROCUREMENT INTEGRITY  
CONSULTING SERVICES, LLC**

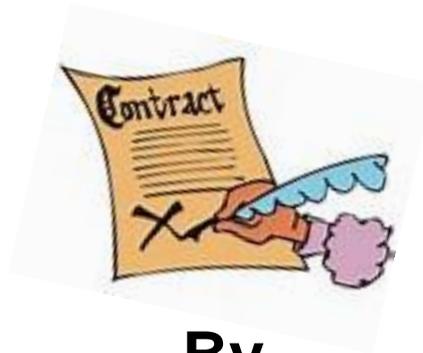
*"Specializing in assessment and mitigation strategies for procurement integrity to reduce the risk of financial and reputation losses"*

***Presentation to: FAEC Procurement Audit Conference***

***Date June 17, 2016***

# THE PROCUREMENT FRAUD EQUATION

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By,  
**Tom Caulfield**

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Experience in Oversight, Building Effective Contracting Integrity and Compliance Programs, Risk Assessments, and Anti-Fraud Strategies.



# THE PROCUREMENT FRAUD EQUATION

## (Four Elements to Procurement Fraud)

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$$(P_{5m} \times S_{44}) + (P_{gs} \times PM) = PF^{\circledR}$$



# PROCUREMENT FRAUD

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- An intentional perversion of truth somewhere in the acquisition process for the purpose of inducing another to part with something of value, or to surrender legal right.



- The misrepresentation is fashioned by a fraudster(s) who has a deep operational knowledge of the procurement process and therefore many times is connected to the contract. (Trust?)



# THE PERSONALITIES

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$$(P_{5m} \times S_{44}) + (P_{gs} \times PM) = PF_{\text{©}}$$

5 Personality Risk Profiles



# PERSONALITIES

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1. Situational Fraudster
2. Deviant Fraudster
3. Multi-Interest Abuser
4. Well Intentioned Non-Compliance Employee
5. Disengaged Non-Compliance Employee



# PERSONALITIES

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1. Situational Fraudster
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# PERSONALITIES

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1. Situational Fraudster
2. Deviant Fraudster
3. Multi-Interest Abuser (define)
4. Well Intentioned Non-Compliance Employee
5. Disengaged Non-Compliance Employee



# PROCUREMENT ABUSE

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**Procurement Abuse** includes actions like:

- Misuse of authority or position;
- Misuse of access to sensitive procurement information.



\*All with the intent to advance one's own interest or those of a family member, friend, or particular contractor.



# PERSONALITIES

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1. Situational Fraudster
2. Deviant Fraudster
3. Multi-Interest Abuser (example)
4. Well Intentioned Non-Compliance Employee
5. Disengaged Non-Compliance Employee



# NON-COMPLIANCE EMPLOYEE

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*There are two types of Non-Compliance Employees:  
**Well-Intentioned and Disengaged***

- Never talked about during courses
- Fraudster and Abuser creates a direct financial loss
- Non-Compliance Employees create an indirect and unnecessary exposure



# PERSONALITIES

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1. Situational Fraudster
2. Deviant Fraudster
3. Multi-Interest Abuser
4. Well Intentioned Non-Compliance Employee
5. Disengaged Non-Compliance Employee



# WELL INTENTIONED NON-COMPLIANCE EMPLOYEE

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- Believes their deviation will cause no harm
- Believes their actions add efficiency
- Strong knowledge of your procurement Processes/Requirements
- Does not identify the true scope of the requirements
- Knows key words to say or not say



# DISENGAGED NON-COMPLIANCE EMPLOYEE

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- Will not perform any of the Schemes
- Opens the organization for the Fraudster
- Little or minimal effort into procurement steps
- Will not check a contractor's bond
- Will not check past performance
- Will not confirm delivery of the product prior to approval for payment
- Disgruntled or dissatisfied employee
- Gallup Poll – 24% - “Actively Disengaged”



# THE EQUATION

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$$(P_{5m} \times S_{44}) + (P_{gs} \times PM) = PF \text{ ©}$$

## 44 Traditional Schemes

Bribes

Gratuities

Kickbacks

Extortion

Inflated Claims

Multiple Claims

False Claims

Counterfeit Parts

Phantom Vendor

Product Substitution

Bid Rotation

Market Sharing

Conflict of Interest

Bid Suppression



# INTENDED MANIPULATION

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- Selection of the vendor
- Cost of what the buyer will pay
- Quality being provided



# THE EQUATION

$$(P_{5m} \times S_{44}) + (P_{gs} \times PM) = PF \text{ ©}$$

## Type of Products (Goods or Services)



Goods and Services

farmer florist baker grocer buy teacher stores sell toys



# THE EQUATION

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$$(P_{5m} \times S_{44}) + (P_{gs} \times PM) = PF_{\text{©}}$$

## Type of Products (Goods)



# THE EQUATION

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$$(P_{5m} \times S_{44}) + (P_{gs} \times PM) = PF \text{ ©}$$

## Type of Products (Services)



# THE EQUATION

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$$(P_{5m} \times S_{44}) + (P_{gs} \times PM) = PF \text{ ©}$$

## Procurement Method





- Certified Public Accountants (CPA)
  - Internal Auditors
  - Procurement Professionals
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1. The Needs Generation Phase (6) – (5) – (3) = [14] !
2. The Selection of Purchasing Method Phase (1) – (2) – (2) = [5]
3. The Solicitation Phase (3) – (6) – (4) = [13]
4. The Evaluation/Selection Phase (4) – (4) – (5) = [13]
5. The Performance/Delivery/Monitoring Phase (5) – (3) – (6) = [14] !
6. The Payment/Closeout Phase (2) – (1) – (1) = [4]

The higher the score the greater the reported risk! [14]

# THE INDIVIDUAL

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$$(P_{5m} \times S_{44}) + (Pgs \times PM) = PF \text{ ©}$$

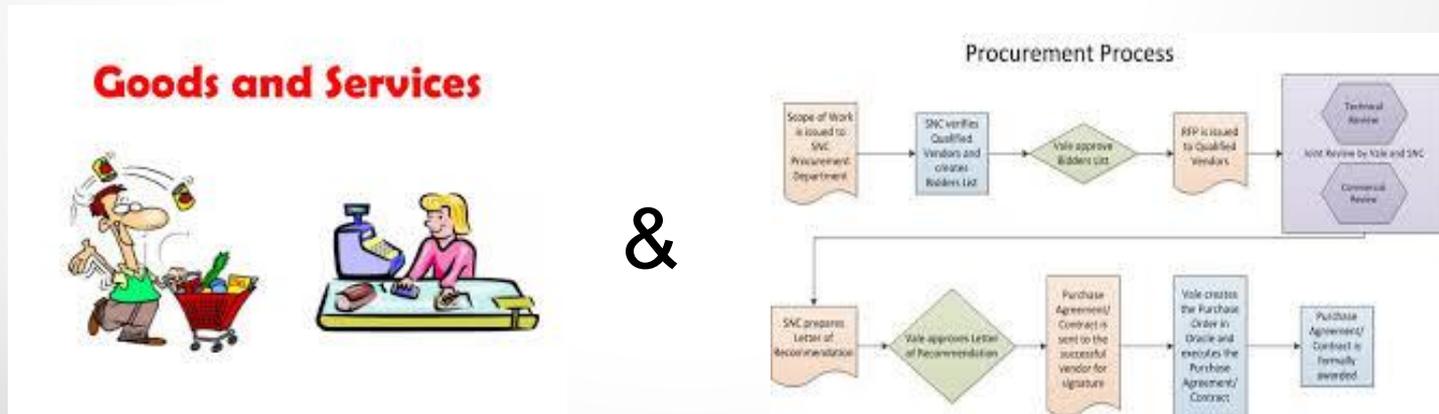
**“Person and Motivation”**



# THE PRODUCT AND PROCESS

$$(P_{5m} \times S_{44}) + (P_{gs} \times PM) = PF \text{ ©}$$

“The Product and Method”



# THE EQUATION

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1. The imagination and motivation of the perpetrator
2. The type of scheme they were deploying
3. The product being procured
4. Their access & type of procurement method being used



# THE EQUATION

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$$(P_{5m} \times S_{44}) + (P_{gs} \times PM) = PF \text{ ©}$$

## Procurement Fraud



# THE NEW EQUATION

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$$(P_{5m} \times S_{44}) + (P_{gs} \times PM) = PI^{\circledR}$$

## Procurement Integrity



# ***PROCUREMENT INTEGRITY***

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An environment committed to fair, honest, impartial, legal, and appropriately transparent procurements.



**Integrity**

Adherence to moral principles. In ethics, integrity is regarded as the honesty and truthfulness or uprightness, sincerity, and



# THE *PROCUREMENT* *INTEGRITY* EQUATION

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$$\underline{(P_{5m} \times S_{44}) + (P_{gs} \times PM) = PI}^{\circledast}$$

PIC

Procurement Integrity  
Controls





**effective**  
internal  
controls

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**Procurement Integrity Controls** are the people, processes, procedures, and/or management systems that are designed to provide reasonable assurance regarding the prevention, detection, prompt reporting, and ability to respond to procurement fraud and abuse.



# ***THE PROCUREMENT INTEGRITY EQUATION***

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$$\underline{(P_{5m} \times S_{44}) + (P_{gs} \times PM) = PI} \text{ ©}$$

**PIC**

Procurement Integrity Controls  
(Prevention and Detection)



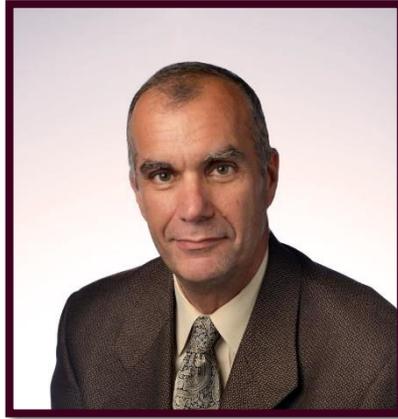
# QUESTIONS

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# CONTACT INFORMATION

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**THANK YOU!**

**PICS**  
PROCUREMENT INTEGRITY  
CONSULTING SERVICES, LLC



***[www.Procurement-Integrity.net](http://www.Procurement-Integrity.net)***

*A Woman-Owned Small Business with a Service Veteran as its Chief Operating Officer*



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