

The background features abstract, overlapping green geometric shapes in various shades, including light lime green, medium green, and dark forest green, creating a modern, layered effect.

# Protecting Your Contracts from Procurement Fraud and Abuse with Procurement Integrity Controls

By Tom Caulfield

# Our Discussion

## Two Questions:

- ❖ What do we, as a group, believe an organization needs (i.e. policies, procedures, and instructions) to protect against the threats of procurement fraud and abuse?
- ❖ Do you believe those identified items are operating sufficiently in your organization?

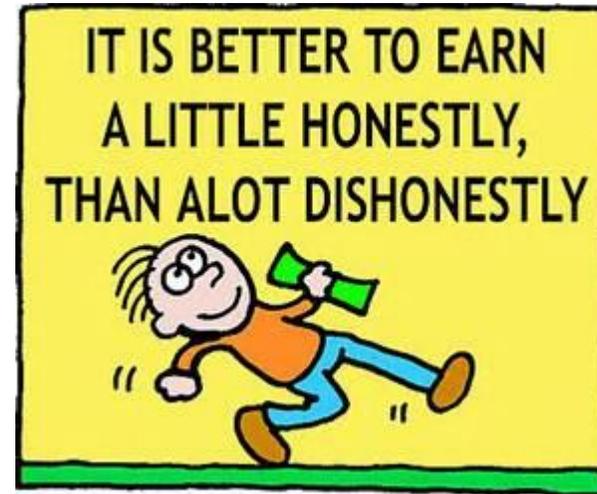
# Rules

- ▶ Everyone needs to participate.
- ▶ We will have free-flowing conversation.
- ▶ There are no wrong answers.
- ▶ We are not having a debate, so let's be open to everyone's ideas.
- ▶ Limit the “war-stories.”
- ▶ We are not here to simply identify requirements within the FAR or DFAR. We are here to talk about practical solutions.
- ▶ Last, we are not driven to finishing the slides, but by the conversation.

# Procurement Integrity

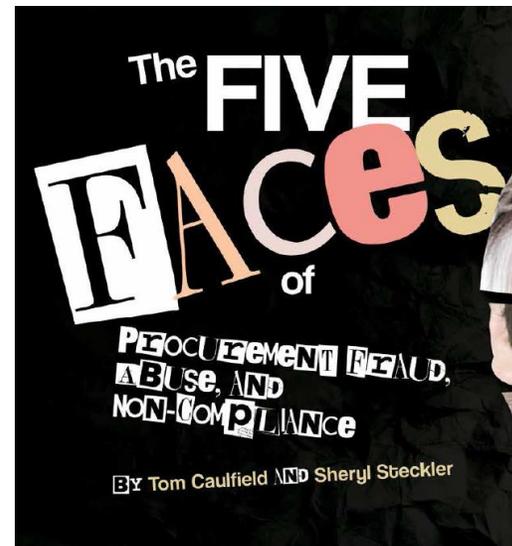
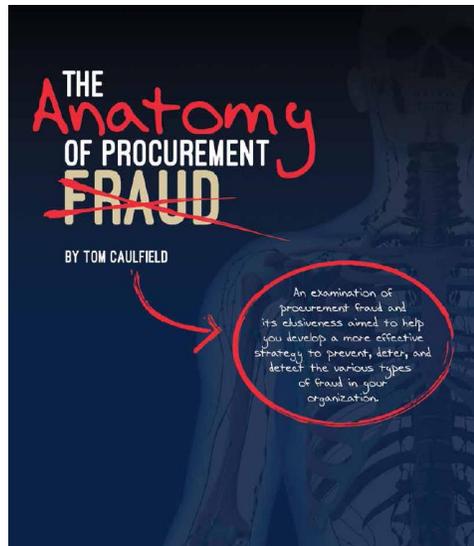
**Procurement Integrity** is the state or condition where all phases of obtaining goods and services are performed:

- ▶ honestly,
- ▶ fairly,
- ▶ impartially,
- ▶ legally, and
- ▶ appropriately transparent.



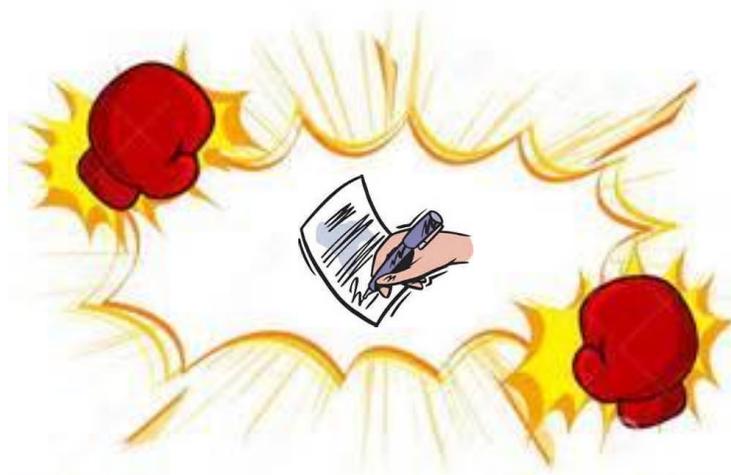
# Threats to Procurement Integrity

- ❖ The 44 traditional procurement fraud and abuse schemes in today's contracting!



# Protection to Procurement Integrity

- ❖ Procurement Integrity - Controls are the best protection to the threats (**44 fraud and abuse schemes**)!



PIC vs 44 Schemes

# Procurement Integrity Controls

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.



# Procurement Integrity Controls

- ▶ Procurement Integrity Controls can be broadly classified into two categories:
  - Prevention - focused on preventing inappropriate events.
  - Detection - focused on detecting inappropriate events.
- ▶ Question - What might be an example of a prevention procurement integrity control designed to stop procurement fraud and abuse?
- ▶ Question - What might be an example of a detection procurement integrity control designed to reveal procurement fraud and abuse?



# Fraud and Abuse Schemes

There are 44 traditionally known fraud and abuse schemes that can be used to compromise a fair procurement. Unfortunately there are a thousand different ways to commit them.

- ▶ “the Selection” of the vendor providing the materials or services;
  - Can you name some of the schemes?
- ▶ “the Cost” of what the buyer will pay for the materials or services;
  - Can you name some of the schemes?
- ▶ “the Quality” of the materials or services being provided.
  - Can you name some of the schemes?

# Of the Forty-four (44) Schemes

- ▶ Twenty-eight (28) schemes are targeting the “selection of the vendor;”
  - ▶ Thirteen (13) schemes are targeting the “cost of what the buyer will pay;”
  - ▶ Three (3) are targeting the “quality of the material or services.”
- 
- ▶ Twenty-two (22) can only be performed when there is a conspiracy between a corrupt insider and a corrupt contractor (bribes and kickbacks);
  - ▶ Four (4) can be performed without an insider knowing, but requires a conspiracy between corrupt contractors (anti-trust schemes);
  - ▶ Eighteen (18) schemes requiring no conspiracy at all (defective products, mischarging, conflict of interest).

# Six Phases

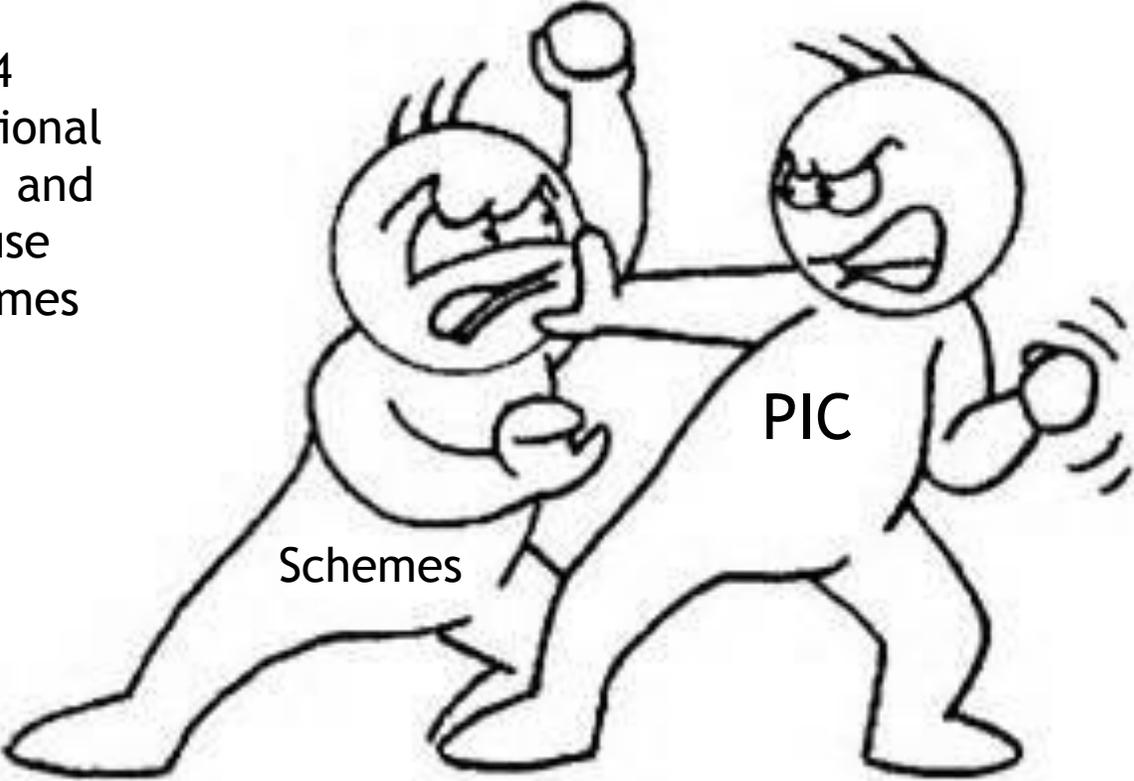
1. The Needs Generation Phase
2. The Selection of Purchasing Method Phase
3. The Solicitation Phase
4. The Evaluation/Selection Phase
  - ▶ AWARD
5. The Performance/Delivery/Monitoring Phase
6. The Payment/Closeout Phase

28

16

# The Fight !

44  
Traditional  
Fraud and  
Abuse  
Schemes



Procurement  
Integrity  
Controls

# Advertisement Schemes (Limiting Competition)

Advertisement schemes are designed by the corrupt insider to limit notification of the contracting opportunity to legitimate bidders in order to ensure the selection of a preferred contractor, but still imply procurement policy was followed.

- ▶ Vague Publication Synopsis
- ▶ Using Obscure
- ▶ Advertisement during Holiday
- ▶ Limiting days to Advertise



# Defective Product Schemes

- ▶ **Product Substitution** - knowingly substituting parts with material of lesser quality than specified within the scope of the contract.
- ▶ **Defective Manufacturing** - knowingly providing a product that was not manufactured as required under the terms of the contract.



# The Big Four - Schemes

The single most damaging corruption within any entity's procurements comes from "*The Big Four*" - Bribes, Gratuities, Extortion and Kickbacks.

- ▶ Bribery
- ▶ Gratuity
- ▶ Extortion
- ▶ Kickback



# The Big Four - Procurement Integrity Controls

- ▶ Ok - what might be some examples of prevention and or detection procurement integrity controls for these schemes?



- ▶ Which of the procurement phases are these schemes attempting to corrupt?

- “the Selection” of the vendor providing the materials or services;
- “the Cost” of what the buyer will pay for the materials or services; or
- “the Quality” of the materials or services being provided.



# Commitment to Procurement Integrity

The organization/company as a whole must have a commitment to procurement integrity that comprises the integrity and ethical values of the organization/company and the procurement division.

- ▶ Anti-Fraud Policy.
- ▶ Code of Conduct.
- ▶ Procurement Integrity Officer.
- ▶ Reference to honesty, fairness, integrity in the manual.



All these and others “set the tone” in the entity on its commitment to procurement integrity and that “tone” are all elements of their procurement integrity controls.

# Segregation of Duties

Segregation of duties is probably the most referenced procurement integrity control everyone wants to talk about.

My question is where in the procurement process do these “segregation of duties” need to occur?

- ▶ **Description of original need/requirement**
  - PIC - Author & Approver
  - Scheme - Unnecessary Purchases or Theft
  - Corruption - Selection - Cost - Quality

# Six Phases

1. The Needs Generation Phase
2. The Selection of Purchasing Method Phase
3. The Solicitation Phase
4. The Evaluation/Selection Phase
  - ▶ AWARD
5. The Performance/Delivery/Monitoring Phase
6. The Payment/Closeout Phase



- ▶ **Question One** - What is your perception on the strength of your organization's Prevention Procurement Integrity Controls against the Selection schemes?
  
- ▶ (5) **Highly-Effective** is when you believe the controls will ensure the schemes can't occur.
- ▶ (4) **Effective** is when you believe the controls in most cases will ensure the schemes will not occur.
- ▶ (3) **Marginally-Effective** is when you believe the controls half the time will ensure the schemes will not occur.
- ▶ (2) **Minimally-Effective** is when you believe in most cases the controls will not stop the schemes from occurring.
- ▶ (1) **Not-Effective** is when you don't believe the controls will stop the schemes from occurring.

- ▶ **Question** - What is your perception on the strength of your organization's Prevention Procurement Integrity Controls against the Cost schemes?
  
- ▶ (5) **Highly-Effective** is when you believe the controls will ensure the schemes can't occur.
- ▶ (4) **Effective** is when you believe the controls in most cases will ensure the schemes will not occur.
- ▶ (3) **Marginally-Effective** is when you believe the controls half the time will ensure the schemes will not occur.
- ▶ (2) **Minimally-Effective** is when you believe in most cases the controls will not stop the schemes from occurring.
- ▶ (1) **Not-Effective** is when you don't believe the controls will stop the schemes from occurring.

- ▶ **Question** - What is your perception on the strength of your organization's Prevention Procurement Integrity Controls against the Quality schemes?
  
- ▶ (5) **Highly-Effective** is when you believe the controls will ensure the schemes can't occur.
- ▶ (4) **Effective** is when you believe the controls in most cases will ensure the schemes will not occur.
- ▶ (3) **Marginally-Effective** is when you believe the controls half the time will ensure the schemes will not occur.
- ▶ (2) **Minimally-Effective** is when you believe in most cases the controls will not stop the schemes from occurring.
- ▶ (1) **Not-Effective** is when you don't believe the controls will stop the schemes from occurring.

- ▶ **Question Two** - What is your perception on the strength of your organization's Detection Procurement Integrity Controls against the Selection schemes?
  
- ▶ (5) **Highly-Effective** is when you believe the controls will ensure the schemes are identified.
- ▶ (4) **Effective** is when you believe the controls in most cases will ensure the schemes are identified.
- ▶ (3) **Marginally-Effective** is when you believe the controls half the time will ensure the schemes are identified.
- ▶ (2) **Minimally-Effective** is when you believe in most cases the controls will not identify the schemes.
- ▶ (1) **Not-Effective** is when you don't believe the controls would ever identify the schemes.

- ▶ **Question** - What is your perception on the strength of your organization's **Detection** Procurement Integrity Controls against the **Cost** schemes?
  
- ▶ (5) **Highly-Effective** is when you believe the controls will ensure the schemes are identified.
- ▶ (4) **Effective** is when you believe the controls in most cases will ensure the schemes are identified.
- ▶ (3) **Marginally-Effective** is when you believe the controls half the time will ensure the schemes are identified.
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- ▶ **Question Two** - What is your perception on the strength of your organization's Detection Procurement Integrity Controls against the Quality schemes?
- ▶ (5) **Highly-Effective** is when you believe the controls will ensure the schemes are identified.
- ▶ (4) **Effective** is when you believe the controls in most cases will ensure the schemes are identified.
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# Degree of Vulnerability

**Degree of Vulnerability** - refers to the perceived degree of vulnerability of the six phases of the procurement processes. The degree of vulnerability is based on the existence and effectiveness of procurement integrity controls.

- ▶ “Rank” each of the six phases based on your perception of its vulnerability to the schemes with the most vulnerable being “6” and the lowest vulnerability being “1.”
  - The Needs Generation Phase
  - The Selection of Purchasing Method Phase
  - The Solicitation Phase
  - The Evaluation/Selection Phase
  - The Performance/Delivery/Monitoring Phase
  - The Payment/Closeout Phase

# Closing

**Procurement Integrity Controls** are organizational processes or systems designed to provide reasonable assurances regarding the prevention, detection, and prompt reporting of abuse, fraud or non-compliance within organizational procurements.

All procurements face some level of risk and the challenge is to identify and determine the level of risk an organization is willing to tolerate and then build protection systems to guard against those risks. There is no greater tool in the detection and prevention of procurement fraud, abuse or non-compliance than knowledgeable employees and sound **Procurement Integrity Controls** built from the organization's most likely vulnerabilities.

# Questions/Thank You

- ▶ Tom Caulfield
- ▶ [Tom.Caulfield@cigie.gov](mailto:Tom.Caulfield@cigie.gov)

