Contract and Procurement Fraud

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AGENDA

- Ask Questions???
- Have Fun!!!
- Give Answers???
- Have Fun!!!
- Who am I ???
- Have Fun!!!
- Mistakes are Okay!!!

AGENDA

- Introduction to Government Fraud
- Introduction to Contract and Procurement Fraud
- Legal Elements of Procurement Fraud
- False Claims and Statements
- Collusion Among Bidders
- Collusion Between Contractors and Employees

AGENDA

- Performance Schemes
- Contract and Procurement Fraud Indicators
- Investigative Steps in a Contract Fraud Case
- Go Home to either Prevent or Fight Fraud

Introduction to Government Fraud

Fraud is a silent offense.

Fraud costs trillions of dollars in worldwide damages each year, and it costs the public, too.

All government entities are victims of every conceivable kind of swindle, and everyone pays for fraud in direct and indirect ways.

Fraud victims, however, are not defenseless.

But prevention starts with being well informed.

Introduction to Government Fraud

Black's Law Dictionary defines fraud as:...*all multifarious means which human ingenuity can devise, and which are resorted to by one individual to get an advantage over another by false suggestions or suppression of the truth. It includes all surprise, trick, cunning or dissembling, and any unfair way by which another is cheated.*

The important point of the definition is that all forms of cheating, involving money or property, are fraud. Although there are many kinds of fraud, this course will focus on fraud committed against the government.

Introduction to Government Fraud

Government Fraud Versus Other Types of Fraud

Serve the public's trust.

Violation of public trust

Obligation to put public interest in front of self interest.

Guardian of public welfare

Discredit to public service

Introduction to Contract and Procurement Fraud

Contract and procurement fraud include a number of common and recurring schemes related to the procurement of goods and services by government organizations.

Definition of a Contract: A contract is an oral or written mutual agreement between two or more individuals or entities. It must contain the following five elements to be enforceable:

- Competent parties
- Lawful subject matter or objectives
- Legal consideration
- Mutual promises
- Mutual obligations

Introduction to Contract and Procurement Fraud

Competent Parties: The parties to the agreement must have the legal right or capacity to make a contract

Lawful Subject Matter or Objective: The subject of the contract must not be contrary to law or public policy.

Legal Consideration: Must be supported by a mutual exchange of value, not merely a naked promises.

Mutual Promises: A mutual promise to exchange value, rather than requiring actual performance.

Manual Obligations: Both parties must intend to be bound for a contract to be formed.

Introduction to Contract and Procurement Fraud

Enforceability: Do not necessarily have to be in writing.

Oral Agreements: If a contract is in writing, courts will usually ignore separate oral agreements to terms made prior to at the same time as the writing if the oral agreements conflict with the written terms.

Contract terms: Must be "certain and definite" to be enforceable.

Revoking a Contract: Parties can revoke a contract if they mutually agree to do so.

Breach of Contract: When one of both parties fail to perform, or announce they do not intend to perform.

Introduction to Contract and Procurement Fraud

Procurement Process:

Refers to those processes, procedures and entities involved in the purchase of goods or services by public or private entities. The primary objective of an effective procurement process is achieving the best value.

Public Procurement:

Refers to theses processes, procedures, and entities involved in the government's process of acquiring goods and services.

Introduction to Contract and Procurement Fraud

While there are many types of procurement fraud schemes, they can be broken down into three groups:

False Claims and Statement

Collusion among contractors

Collusion between contractors and employees

Performance schemes

Introduction to Contract and Procurement Fraud

Methods of Procurement

Depends on complexity of the procurement.

Can range from using a government credit card for small dollar off-the-shelf items to negotiated multi-million dollar contracts that provides computer services.

In both cases a solicitation document provides information necessary for potential bidders to make their proposals.

Introduction to Contract and Procurement Fraud

Methods of Procurement

Simplified Acquisition Procedures

- Small purchase procedures used to acquire supplies and services that do not exceed the acquisition threshold
- Blanket purchase orders and credit cards
- Purchase orders
- Impress funds (petty cash funds)

These methods designed to speed up the procurement process by minimizing applicable regulations.

Introduction to Contract and Procurement Fraud

Methods of Procurement

Sealed-Bids (Formal Advertising)

A procuring entity used sealed bidding when its requirements are clear, accurate, and complete. It involves competitive bids. It uses an invitation to bid document which contains a purchase description, the condition for purchase, all contractual terms, and the deadlines for submitting bids. They are publicly solicited and this process requires that each bid be sealed and opened in a public forum attended by all interested parties. Lowest price is usually the bases for the selection.

Methods of Procurement

Competitive Negotiation

This method permits bargaining between the procuring entity and prospective contractors before the final award of a contract.

Request for Proposals or Request for Quotations are used.

Introduction to Contract and Procurement Fraud

Methods of Procurement

Noncompetitive Proposals

Not open and free completion. This exception results in sole source contracting.

Procurement through this process requires justification.

Some exceptions that can be invoked are:

- Only one responsible source and not other supplies or services will satisfy agency requirements.
- Unusual and compelling urgency
- Expert services

Introduction to Contract and Procurement Fraud

Stages in the Procurement Process (four basic stages):

- The Pre solicitation Phase
- The Solicitation Phase
- The Bid Evaluation and Award Phase
- Post Award/Performance and Administration Phase

Introduction to Contract and Procurement Fraud

Phases in the Procurement Process

For the purpose of fraud detection, the procurement process can be reduced to four basic stages:

The pre solicitation phase—Generally, the pre solicitation phase begins with the procuring entity identifying its needs, developing the specifications (what, how much, and how good), and determining the method to be used for acquiring the goods or services.

Introduction to Contract and Procurement Fraud

Phases in the Procurement Process

The solicitation phase—The solicitation phase involves bid solicitation, bid preparation, and bid submission.

The bid evaluation and award phase—After receiving the bids, the procuring entity publicly opens each bid in the presence of interested parties (the bid opening) and evaluates the bids or proposals. During this time, the purchasing entity may conduct discussions/negotiations, and it may give the bidders an opportunity to revise their proposals. The purchasing entity then selects the winning bid or proposal

Phases in the Procurement Process

The post-award and administration phase—During this phase, the contracting parties fulfill their respective duties through the performance of their contractual obligations.

Types of Government Contracts

Fixed-Price Contracts- the contractor agrees to do what is in the contract for a flat, fixed price that may be subject to adjustments in appropriate circumstances.

Cost-Reimbursement Contracts (Cost-Plus Contracts) – The government reimburses the contractor for the allowable costs (i.e., allocable, properly accounted for, and not specifically disallowed) it incurs during the terms of the contract. Cost-reimbursable contracts serve to establish an estimate of total cost and a ceiling that the contractor may not exceed.

Legal Elements of Procurement Fraud

The U.S. legal system provides for both private and public remedies for procurement fraud.

All states and the federal government have a number of criminal statutes that can be used to prosecute contract and procurement fraud.

Official Bribery

Conflicts of Interest

Criminal False Claims

Embezzlement of Public Money, Property, or Records

Legal Elements of Procurement Fraud

Official Bribery

Prohibits giving or receiving something of value for the purpose of influencing the performance of an official act.

The elements of an official bribery offense are as follows:

Giving or receiving
With corrupt intent
Any ‘thing of value”
To a public official
To influence
An official act

Legal Elements of Procurement Fraud

Official Bribery

Giving or receiving – Includes directly, indirectly offering, promising, or soliciting a bribe. An unsuccessful attempt to bribe can violate the statue if the other elements are present.

With Corrupt Intent – Must act willfully and corruptly. Defendant acted knowingly and deliberately. Acted with the intent to influence an official act through the payment of a thing of value.

Any "Thing of Value" – Inappropriate gifts, free travel, and lavish entertainment. Payment of credit card debt. Loans (whether repaid or not). Cash. Checks (disguised as legitimate fees). Hidden interests in a business or transaction.

Legal Elements of Procurement Fraud

Official Bribery

To a Public Official. Includes those in public service, those chosen for public service but not yet confirmed. State and local government employees who administer federal or sate funds or programs may be considered public officials.

To Influence – Evidence must be shown that the payment was intended to cause the official to act favorably to the payer or third party.

An Official Act. Refers to an act, matter, or decision that might properly be brought before a public official.

Legal Elements of Procurement Fraud

Conflicts of Interest

Prohibits situations in which a government employee engages in activities that create a conflict between his personal interests and his duty to protect and serve the interests of the government.

Elements: Whoever participates personally and substantially in a contract, claim or other proceeding in which, to his knowledge, he (or a related party) has a financial interest without full disclosure of such interest and receiving approval to participate.

Legal Elements of Procurement Fraud

Conflicts of Interest

Whoever: Covers officers and employees of the government.

Participates: Participates through decision, approval, disapproval, recommendation, negotiations, or other means.

Related Party: he, his spouse, a minor child, a general partner or any organization by which he is employed has a financial interest.

Financial Interest: A substantial and direct financial interest, capable of adversely influencing the official's decision-making. Remote or inconsequential interests are exempted.

Legal Elements of Procurement Fraud

Conflicts of Interest

Without Full Disclosure: Disclosure must be given to the government official responsible for the subject's appointment. A full disclosure of the nature and circumstances of his involvement in the official proceedings and financial interest.

Legal Elements of Procurement Fraud

Criminal False Claims

It is illegal to present or make any false, fictitious, or fraudulent claims against any agency or department of the government. The crime is complete when the claim is presented and payment of the claim is not an element of the offense.

Elements:
Makes or presents any claim
Upon the government
Knowing such claim to be false, fictitious, or fraudulent.

Legal Elements of Procurement Fraud

Criminal False Claims

Makes or Presents: A claim must actually be presented. Can be presented indirectly or through an intermediary.

Any Claim Upon or Against the Government: Includes any request or demand for money or property upon the government.

Knowing: Actual knowledge of falsity; Deliberate ignorance of truth or falsity; Reckless disregard of truth or falsity

It is not necessary to prove that the defendant had the specific intent to defraud the government.

Legal Elements of Procurement Fraud

Embezzlement of public money, property or records

Criminalizes intentional and unauthorized taking, destruction, or use of government money, property, or records. It also prohibits receiving to concealing such property or records.

Elements:
Willfully and knowingly
Stealing, converting, or embezzling
Any "thing of value" from
The government

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Legal Elements of Procurement Fraud

Embezzlement of public Money, Property or Records

Willfully and Knowingly: Person converted or took money or property intentionally and not be accident or mistake.

Stealing, converting, or embezzling: means the person took money or property belonging to the government with the intent to permanently or temporally deprive the government of its value or use.

Anything of value from the government: Includes money, property, intangible rights, or any other items capable of having a momentary value.

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Legal Elements of Procurement Fraud

Embezzlement of public Money, Property or Records

Value: Means face, par, or market value, cost of price, either wholesale ort retail, whichever is greater.

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Types of Government Fraud

False Claims and Statements

Types of Government Fraud

Introduction

Although there are a number of federal statutes that prohibit making false claims and statements to the government, or its official.

Briefly stated, the law prohibits a person from lying to or concealing information from a governmental official

Types of Government Fraud

Introduction (continued)

Thousands of false statements made a year to federal government.

To get entitlement benefits – representations made not true.

Medicare – false statements about income level, number of children they have.

Small business fraud – make false statements to get into program.

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False Statements

A statement is *false* if it was known to be untrue when it was made, and it is *fraudulent* if it was known to be untrue and was made with the intent to deceive a government agency.

For a violation to occur, the government agency need not actually have been deceived, nor must it have in fact relied upon the false statement, but the statement must have been capable of influencing the agency involved.

The statute covers both oral and written statements, whether sworn or unsworn. Additionally, it applies to false statements that are not made directly to the government if the statements result in false statements to the government.

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False Statements (continued)

Prosecutors most often use the False Statements statute to prosecute false statements made to law enforcement or regulatory officials not made under oath, in the course of an official investigation, or on an application for such things as federal employment, credit, and visa applications.

The elements of the violation are set forth below:

Types of Government Fraud

The defendant made a false statement (or used a false document).

The statement was material.

The statement concerned a matter within the jurisdiction of any agency of the United States.

The defendant knew the claim was false, acted in deliberate ignorance of the claim’s truth, or acted in reckless disregard of the claim’s truth.

However, does not require that the government actually rely upon, be deceived or influenced by, or suffer a financial loss because of the false statement.

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Example:

A large highway construction firm admitted to making false statements during the construction of an interstate highway. The firm admitted to making false statements regarding the testing of concrete used to construct certain bridges. Core samples taken from the concrete batches used in construction were cured in a lime bath, which hardened the samples, instead of in the field as required by the contract. Under the contract, the construction firm was paid according to the hardness of the concrete samples.

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Other Federal Laws Prohibiting False Statements

There are a number of other federal statutes related to false claims and statements made to the federal government as well. Among the most useful are:

Conspiracy to Defraud the Government with Respect to Claims (18, U.S.C., § 286)—This section makes it a crime for two or more people to agree or conspire to defraud the United States by obtaining, or aiding in obtaining, payment or allowance of any false, fictitious, or fraudulent claim.

The Criminal False Claims Act (18, U.S.C., § 287)—This statute, which addresses false claims, makes it illegal to present or make any false, fictitious, or fraudulent claim against any agency or department of the United States.

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Types of False Statements

Often, false claims or statements occur in the following areas:
Contracting bids and cost proposals (e.g., false information concerning contractor qualifications, financial capabilities, facilities, size of business, ownership of equipment and supplies, information provided to other agencies to support special status, qualifications of personnel, successful performance of previous jobs, etc.)

False certifications or assurances contract (e.g., certifications of compliance, size of business certification, minority business certification, certification of independent price determination, manufacturer's certificate of warranty, etc.).

Billing documents (e.g., billing for fictitious employees or billing for goods and services not provided)

Types of Government Fraud

- Records or invoices
- Progress reports
- Test and inspection results
- Invoices from nonexistent companies
- Duplicate or altered invoices
- Inflated costs or substitution of cheaper goods
- Fictitious transactions
- Official investigations

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Preventing False Statements

Prevention, prevention, prevention

Front end of process most important – controls

Make sure eligible at front end.

Fraud prevention cheapest control

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Red Flags of False Statements

Some common red flags of false statements include:

Failure to produce documents in a timely manner

Failure to respond to inquiries in a timely manner

Refusal or inability to provide supporting documentation

Inadequacies in reporting requirements (e.g., untimely reports, incomplete reports, and others)

Failure to have an adequate information gathering and retrieval system

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Red Flags of False Statements

Inadequate or apparently altered, missing, or incomplete supporting documentation

Photocopied or duplicate documents

Failure to have adequate supporting documentation for reports and summary data

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Detecting False Statements and Claims

One of the best methods for detecting false statements is to examine the source documents for the transactions in question.

This approach is called tracing (i.e., from the source document out to the report) and it can help the examiner identify any changes or discrepancies between what actually occurred—per the source documents—and what is being claimed in statements made to the government.

In addition, the examiner might be alerted to false statements by looking for any of the red flags previously discussed.

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Types of Procurement Fraud

While there are many types of procurement fraud schemes, they can be broken down into three groups:

Collusion among Contractors

Collusion between Contractors and Employees

Performance Schemes

Types of Government Fraud

Collusion Among Contractors

Types of Government Fraud

Collusion is a type of fraud where two or more individuals agree to commit an act designed to deceive or gain an unfair advantage.

Often, when contracting for the supply of goods and services, two or more vendors collude to circumvent the competitive bidding process. When this happens, prices are inflated and the procuring entity is cheated out of its right to the benefits of free and open competition.

The most common forms of collusion between competitors involve:

Collusive Bidding (Bid Rigging)

Bid rotation

Bid suppression

Market division

Types of Government Fraud

Collusive Biding – also called bid rigging is a form of anticompetitive activity that limits competition where purchases use competitive procurement processes to obtain goods or services.

Suppliers or contractors in a certain geographic area or trade conspire to defeat the competition and rig prices using a variety of means.

The object of each of the schemes is to limit competition and thereby increase the amount of business available to each of the participants and the prices they can charge.

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Complementary Bidding

Complementary bidding (also known as *protective*, *shadow*, or *cover bidding*) occurs when competitors submit token bids that are not serious attempts to win. For the conspirators to bid higher than the designated winning bidder, they might agree to submit:

Bids that are too high to be accepted

Bids that appear to be competitive in price but deliberately fail to meet other requirements of the tender

Bids that contain special terms that will not be acceptable to the buyer

Types of Government Fraud

Bid Rotation

Bid rotation schemes occur when two or more contractors conspire to alternate the business between them on a rotating basis. Instead of engaging in competitive contracting, which drives down the contract price, contractors perpetrating these schemes prefer exchanging information on contract solicitations to guarantee that each contractor will win a share of the purchasing entity’s business.

Similar to complementary bidding schemes, bid rotation schemes may be coupled with a scheme to award subcontracts to losing bidders. This allows losing bidders to improve their cash flow as they wait for their turn to win. Similarly, losing bidders might receive a percentage of the winning company’s profits.

Types of Government Fraud

Bid Suppression

Bid suppression occurs when two or more contractors enter an illegal agreement whereby at least one of the conspirators refrains from bidding or withdraws a previously submitted bid. The goal of these schemes is to ensure that a particular competitor's bid will be accepted.

Types of Government Fraud

. **Market Division**

Market division schemes involve agreements in which competitors divide markets among themselves and refrain from competing in each other's designated portion of the market. Markets are generally divided according to geographic area—the competitors take turns on contracts according to the geographic area—or are based on the customer—the competitors allocate specific customers or types of customers among themselves.

The result of these schemes is that competing firms will not bid against each other, or they will submit only complementary bids when a solicitation for bids is made by a customer or in an area not assigned to them.

Types of Government Fraud

. **Market Division**

The customer thereby loses the benefit of true competition and ends up paying a higher price than would be dictated by fair bidding under normal economic forces.

Corrupt contractors often conceal market division schemes by submitting bids from shell companies (i.e., companies that have no physical presence and generate little independent economic value).

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Red Flags of Collusion Among Contractors

The industry has limited competition.

The same contractors bid each job.

The winning bid appears too high.

The range of bid prices shows a wide gap between the winner and all other bidders.

All contractors submit consistently high bids.

The continued presence of egregious price increases.

Qualified contractors do not submit bids..

Types of Government Fraud

Red Flags of Collusion Among Contractors (continued)

A low bidder withdraws and becomes a subcontractor.

Bids appear to be complementary bids by companies unqualified to perform the work.

Some of the bids fail to meet obvious requirements or provisions.

Fewer competitors than normal submit bids on a project or product.

When a new contractor enters the competition, the bid prices begin to fall.

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Red Flags of Collusion Among Contractors (continued)

There is a rotational pattern to winning bidders (e.g., geographical, customer, job, or type of work).

The winning bidder subcontracts work to one or more losing bidders or to non-bidders. high bids.

The continued presence of egregious prices increases.

Qualified contractors do not submit bids..

Types of Government Fraud

Red Flags of Collusion Among Contractors (continued)

Physical evidence of collusion in the bids (e.g., bidders make the same mathematical or spelling errors; bids are prepared using the same typeface, handwriting, stationery, or envelope; or competitors submit identical bids).

A pattern where the last party to bid wins the contract.

Competitors frequently change prices in similar amounts at about the same time.

Losing bids do not comply with bid specifications, or only one bid is complete and other bids are poorly prepared.

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Red Flags of Collusion Among Contractors (continued)

Any patterns of conduct by bidders or their employees that suggest the possibility of collusion (e.g., competitors regularly socialize, hold meetings, visit each other's offices, subcontract with each other, etc.).

Types of Government Fraud

Collusion Between Contractors and Employees

Types of Government Fraud

Procurement fraud schemes involving contractors and employees of the purchasing entity generally include the following:

Need recognition schemes

Bid tailoring

Bid manipulation

Unbalanced bidding

Leaking bid data

Bid splitting

Unjustified sole source awards

Types of Government Fraud

Generally, procurement actions begin with the procuring entity making a determination of its general needs. These initial determinations include assessments of the types and amounts of goods or services required to meet the entity's needs. Fraud occurring during this phase of the procurement process may result in decisions to purchase excessive or possibly unnecessary goods or services.

Types of Government Fraud

Typically, need recognition schemes involve the following scenarios:

Purchases for personal use or resale—In these schemes, employees with procurement authority exploit their position of power by using their employer's funds to obtain items for their personal use or resale (e.g., tools, office supplies, computers, automobile parts, etc.).

Unnecessary purchases—In these schemes, an employee of the buyer receives something of value and in return recognizes a need for a particular product or service offered by the supplier.

Excessive purchases—In these schemes, a corrupt employee purchases goods or services in excess of amounts actually needed.

Types of Government Fraud

Red Flags of Need Recognition Schemes

Some common red flags of need recognition schemes include:

The assessment of needs is not adequately or accurately developed.

Unreasonably high stock levels or inventory levels.

There is no list of backup suppliers for items, spare parts, or services continually purchased from a single source.

There is an unusual or unexplained high volume of purchases of products that are suitable for resale.

Unusually large numbers of surplus items are written off to scrap.

Types of Government Fraud

Red Flags of Need Recognition Schemes

Estimates are not prepared or are prepared after solicitations are requested.

Consumer items are purchased but need replacement in a relatively short amount of time.

There is a high volume or unusual purchase of consumer items or items suitable for resale.

Items suitable for personal use or resale are missing from inventory or are unaccounted for.

Types of Government Fraud

Red Flags of Need Recognition Schemes

- Purchased items are unnecessary or unrelated to the procuring entity’s needs.
- A suspect employee operates an outside business.
- A suspect employee displays sudden wealth, pays down debts, or lives beyond his means.

Types of Government Fraud

Bid Tailoring Schemes

Bid-tailoring schemes occur during the pre solicitation phase.

In these schemes, an employee with procurement responsibilities, often in collusion with a supplier or contractor, manipulates bid specifications to give an unfair advantage to a certain contractor.

Types of Government Fraud

Bid Tailoring Schemes

Bid specifications are a list of elements, measurements, materials, characteristics, required functions, product name or brand number, and other specific information relevant for completion of the project. Specifications are included to assist contractors in the bidding process, informing them what they are required to do and providing information necessary to make and accept bids.

Types of Government Fraud

There are three primary bid-tailoring schemes:

Drafting narrow specifications—A corrupt employee of the buyer tailors the bid specifications to accommodate a vendor's capabilities so it is effectively assured of winning the contract.

Drafting broad specifications—A corrupt employee of the buyer designs unduly broad qualification standards to qualify an otherwise unqualified contractor to bid.

Drafting vague specifications—The buyer's personnel and the contractor collude to write vague specifications or intentionally omit bid specifications. This enables subsequent contract amendments, allowing the contractor to raise the price of the contract.

Types of Government Fraud

Some common red flags of bid-tailoring schemes include:

Weak controls over the bidding process

Only one or a few bidders respond to bid requests

Contract is not re-bid even though fewer than the minimum number of bids are received

Similarity between specifications and winning contractor's product or services

Unusual or unreasonably narrow or broad specifications for the type of goods or services being procured

Types of Government Fraud

- Requests for bid submissions do not provide clear bid submission information (e.g., no clear time, place, or manner of submitting bids)
- Unexplained changes in contract specifications from previous proposals or similar items
- High number of competitive awards to one supplier
- Socialization or personal contacts between contracting personnel and bidders
- High number of change orders for one supplier

Types of Government Fraud

Bid Manipulation

In these schemes, which occur during the solicitation phase, a procuring employee manipulates the bidding process to benefit a favored contractor or supplier. Some common ways to commit these schemes include:

Accepting late bids

Altering bids

Extending bid opening dates

Prematurely opening bids

Types of Government Fraud

Bid Manipulation (Continued)

Unnecessarily re-bidding work

Discarding or losing a bid or proposal

Improper disqualification (e.g., voiding bids for alleged errors in specifications)

Types of Government Fraud

Some common red flags of bid manipulation schemes include:

Weak controls over the bidding procedures

Evidence of changes to bids after they were received

Winning bid is voided for errors and job is re-bid or awarded to another contractor

An otherwise qualified bidder is disqualified for seemingly arbitrary, false, frivolous, or personal reasons

Types of Government Fraud

Some common red flags of bid manipulation schemes include:

Procurement employee accepts late bids

Contract is awarded to a non-responsive bidder

The bids of competing contractors are lost

Bid deadlines are extended

Despite receiving fewer than the minimum number of bids, the contract is not re-bid

Types of Government Fraud

Some common red flags of bid manipulation schemes include:

Invitations for bids are sent to unqualified contractors

Invitations for bids are sent to contractors that previously declined to bid

Types of Government Fraud

Unbalanced Bidding

Unbalanced bidding is a type of bid submission scheme in which a bidder, usually in collusion with contracting personnel, becomes aware that one of several line items in a request for a bid on certain works, goods, or services will not be called for under the contract. This information, which is not available to other bidders, allows the favored firm to submit a very low price for the line item and to be the overall low bidder.

Types of Government Fraud

Unbalanced Bidding

Some common red flags of unbalanced billing schemes include:

Certain line items in a request for a bid seem unusually low.

Certain line items in a request for a bid differ from those in the actual contract.

Following the contract award, there are change orders that reduce the requirements for low-bid line item (s).

Types of Government Fraud

Unbalanced Bidding

Some common red flags of unbalanced billing schemes include:

Certain line item bids have not been performed or purchased as required under the contract.

Other similar contract awards do not require line item bids.

In change orders that are issued soon after the contract is awarded, line items are deleted, or line items are modified.

The contractor’s bid is similar to or the same as the budgeted estimate.

Types of Government Fraud

Leaking Bid Data

Employees of a procuring entity can leak pre-bid information or confidential information from competing bidders to a favored bidder, giving that bidder an unfair advantage in the bidding process. Typically, these schemes occur as the result of corruption

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Leaking Bid Data

Some common red flags of leaking bid data schemes include:

The procuring entity has weak controls over its contracting system.

The winning bid is just under the next lowest bid.

The winning bid is unusually close to the procuring entity's estimates.

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Leaking Bid Data

Some common red flags of leaking bid data schemes include:

The last party to bid wins the contract.

The contract is unnecessarily re-bid.

A contractor submits false documentation to get a late bid accepted.

Types of Government Fraud

Bid-Splitting Schemes

In bid-splitting schemes, employees of a procuring entity split large contracts into smaller contracts, allowing them to avoid the scrutiny required for larger dollar value contracts. In basic terms, splitting bids into several separate tenders creates more opportunities for corrupt employees to influence the award.

Types of Government Fraud

Bid-Splitting Schemes

Bid splitting often is used to avoid competitive bidding. Because procuring entities are generally required to use competitive methods for projects over a certain dollar amount, employees of a procuring entity might break a large project up into several small projects to avoid these requirements.

Types of Government Fraud

Bid-Splitting Schemes (continued)

Some common red flags of bid-splitting schemes include:

- Two or more similar or identical procurements from the same supplier in amounts just under upper-level review or competitive bidding limits

- Two or more consecutive related procurements from the same contractor that fall just below the competitive bidding or upper-level review limits

Types of Government Fraud

Bid-Splitting Schemes (continued)

Some common red flags of bid-splitting schemes include:

- Unjustified split purchases that fall under the competitive bidding or upper-level review limits

- Sequential purchases just under the upper-level review or competitive bidding limits

- Sequential purchases, which fall under the upper-level review or competitive bidding limits, that are followed by change orders

Types of Government Fraud

Unjustified Sole Source Awards

Sole source contracting is an exception to the general rule of competition; it is a noncompetitive procurement process accomplished through the solicitation of only one source, thereby limiting full and open competition.

Because quotation and bid requirements do not apply to sole source purchases, procurement through this process requires justification, which typically occurs when the goods or services are available only from a single source, when exigent circumstances will not permit delay resulting from a competitive solicitation, or when solicitation is determined inadequate after soliciting a number of sources. Therefore, unjustified sole source contracts unfairly exclude competition.

Types of Government Fraud

Unjustified Sole Source Awards

Sole source contracting is more vulnerable to fraud because there is greater freedom for manipulation and collusion with a vendor/contractor, and because of this, federal government entities cannot conduct sole source acquisitions unless they provide their justifications in writing and the acquisition is approved at all necessary levels.

Types of Government Fraud

Unjustified Sole Source Awards (continued)

Some common red flags of unjustified sole source award schemes include:

Frequent use of sole-source procurement contracts

High number of sole-source awards to one supplier

Requests for sole-source procurements when there is an available pool of contractors to compete for the contract

Types of Government Fraud

Unjustified Sole Source Awards (continued)

Some common red flags of unjustified sole source award schemes include:

Procuring entity did not keep accurate minutes of pre-bid meetings

False statements made to justify sole source of negotiated procurement

Justifications for sole-source or negotiated procurement signed or approved by employees without authority

Failure to obtain the required review for sole-source justifications

Types of Government Fraud

Performance Schemes

Types of Government Fraud

Procurement fraud schemes occurring during the performance phase of contracting generally include:

Progress payment fraud

False or inflated invoices

Duplicate invoices

Non-conforming goods or services

Types of Government Fraud

Procurement fraud schemes occurring during the performance phase of contracting generally include:

Change order abuse

Cost mischarging

Commingling of contracts

Types of Government Fraud

Progress Payment Fraud

Progress payment fraud is a specific type of fraud that occurs in government contracts. Progress payments are payments made as work progresses under a contract. Generally, progress payments are based upon the costs incurred, the percentage of work completed, or the completion of a particular milestone.

Types of Government Fraud

Progress Payment Fraud (continued)

Fraud in progress payments occurs when a contractor submits a progress payment request based on false statements, such as false direct labor charges, material costs for items not actually purchased, or false certification of work completed. More specifically, in the *Handbook on Indicators of Fraud in DOD Procurement*, the U.S. Department of Defense (DoD) defines progress payment fraud as "the submission of a progress payment request based on falsified direct labor charges, on material costs for items not actually purchased, or on falsified certification of a state of completion attained/work accomplished."

Types of Government Fraud

Progress Payment Fraud (continued)

Progress payment frauds usually involve falsified labor charges for work not yet performed, charges for materials not purchased, or false certification of the percentage or stage of completion.

Types of Government Fraud

Some common red flags of progress payment fraud schemes include:

The contractor is slow in paying (or nonpayment of) suppliers, employees, or the government.

The contractor has cash flow problems.

Little or no physical progress on the contract is made even though significant costs have been billed.

The contractor's progress payment claims do not appear to coincide with the contractor's plan to perform the contract.

Types of Government Fraud

Some common red flags of progress payment fraud schemes include:

The contractor's progress payment claims do not appear to coincide with the contractor's capability of performing the contract

The cancellation date on the contractor's check to a subcontractor is the same as or later than the date the contractor received payment from the government.

Types of Government Fraud

False, Inflated, and Duplicate Invoices

To generate false payments, a contractor or vendor may submit false, inflated, or duplicate invoices—itemized statements of money owed for goods or services supplied. When perpetrating these schemes, the contractor may be acting alone or in collusion with an employee of the victim organization who shares in the profits.

Types of Government Fraud

False, Inflated, and Duplicate Invoices (continued)

False invoices are invoices submitted when no goods or services were provided, or they are invoices that do not properly represent the quantity or quality of goods and services supplied or work done as per contracted specifications.

Inflated invoices include bills that charge for a higher grade, cost of material, or service than actually delivered.

Types of Government Fraud

False, Inflated, and Duplicate Invoices (continued)

Duplicate invoices occur when a contractor separately submits copies of the same invoice for payments, or submits more than one original invoice for the same goods or services, and is subsequently paid twice.

Types of Government Fraud

False, Inflated, and Duplicate Invoices (continued)

Some common red flags of false, inflated, and duplicate invoices include:

Proper controls are not in place over the inventory and purchase accounts

Supporting documents provided are inadequate or appear to be copied, altered, or forged

Missing, copied, or fraudulent invoices

Types of Government Fraud

False, Inflated, and Duplicate Invoices (continued)

Some common red flags of false, inflated, and duplicate invoices include:

The invoice amount is an even amount (round number) that is not expected or reasonable

Invoice prices, amounts, item descriptions, or terms exceed or do not match contract items, purchase order, receiving records, inventory, or usage records

Types of Government Fraud

False, Inflated, and Duplicate Invoices (continued)

Some common red flags of false, inflated, and duplicate invoices include:

Unusually high volume of vendor activity for vendor

Multiple invoices at or just under approval cut-off levels

Invoices from vendors not in the approved vendor file

Types of Government Fraud

False, Inflated, and Duplicate Invoices (continued)

Some common red flags of false, inflated, and duplicate invoices include:

Invoices without a valid purchase order

No segregation of duties in the purchasing function

Absence of detail on vendor invoices

Types of Government Fraud

Non-Conforming Goods or Services

Non-conforming goods or services fraud refers to attempts by contractors to deliver goods or services to the procuring entity that do not conform to the contract specifications. The contractor then bills and receives payment for conforming goods or services without informing the purchaser of the deficiency.

Types of Government Fraud

Non-Conforming Goods or Services (continued)

This type of scheme can be committed by the contractor acting alone, or it can be facilitated by procurement or inspection personnel as the result of corruption. In non-conforming fraud schemes involving corruption, the dishonest supplier might give gifts or favors to inspectors or pay kickbacks to contracting officials to facilitate the scheme. The supplier would then submit false documentation to conceal it.

Types of Government Fraud

Non-Conforming Goods or Services (continued)

Non-conforming goods or services schemes may include:

Delivery of inferior/substandard material

Delivery of materials that have not been tested

Falsification of test results

Delivery of used, surplus, or reworked parts

Types of Government Fraud

Non-Conforming Goods or Services (continued)

Non-conforming goods or services schemes may include:

Delivery of counterfeit products

Submission of false certifications

Product substitution

Types of Government Fraud

Non-Conforming Goods or Services (continued)

Some common red flags of non-conforming goods or services schemes include:

Supporting documentation for proposed standards is unavailable or inadequate

Test or inspection records reflect high rate of failure

High percentage of product returns to the vendor for non-compliance with specifications

Types of Government Fraud

Non-Conforming Goods or Services (continued)

Some common red flags of non-conforming goods or services schemes include:

Discrepancy between product's description or normal appearance and actual appearance (e.g., a new product appears to be used)

Material or product returns not handled through normal procedures or handled by high-level personnel

Types of Government Fraud

Non-Conforming Goods or Services (continued)

Some common red flags of non-conforming goods or services schemes include:

Product compliance certificate is missing or is apparently altered or modified

Test performed or compliance certificate signed by unqualified or inappropriate personnel (e.g., employee with no quality assurance responsibilities)

Unusually high number of test or operation failures

Unusually high maintenance and repair costs

Types of Government Fraud

Non-Conforming Goods or Services (continued)

Material testing done by the supplier, using his own personnel and facilities

Absent or inadequate test or inspection reports

Product packaging, appearance, and description do not appear genuine

Machines with identification or specification plates removed

Types of Government Fraud

Non-Conforming Goods or Services (continued)

Invoice or inventory item numbers or descriptions do not match purchase order terms; inventory item numbers or descriptions do not match invoice terms

The contractor always offers to select the sample and prepare it for testing

Types of Government Fraud

Change Order Abuse

In change order abuse schemes, a bidding contractor submits a low bid to ensure the winning of the contract award, but a corrupt employee of the procuring entity has assured the contractor that contracting personnel will prepare contract change orders during the life of the contract, which will more than compensate for the low bid. After the procuring entity awards the contract, the corrupt contractor increases its price by submitting change order requests.

If successful, these schemes will, at the very least, cause the procuring entity to lose any advantage received through the competitive bidding process.

Types of Government Fraud

Change Order Abuse

Similarly, a dishonest contractor, acting in collusion with contract personnel, can use the change order process to improperly extend or expand contracts and avoid re-bidding.

Types of Government Fraud

Change Order Abuse (continued)

Change orders generally receive less scrutiny than the bidding process or the negotiation of contract terms, making them a popular way to fraudulently access funds or generate funds for kickbacks.

Even though change orders are inevitable and can develop for various reasons (e.g., design error, ambiguous specifications or omissions in specifications, change in scope, weather delays, improvement in time or cost, building code changes, etc.), fraud examiners should view all contract change orders with a sense of watchfulness.

Types of Government Fraud

Cost Mischarging

Cost mischarging schemes occur when a contractor charges the procuring entity for costs that are not allowable, not reasonable, or that cannot be allocated to the contract directly or indirectly.

Types of Government Fraud

Cost Mischarging (continued)

Cost mischarging is a type of procurement fraud that contractors commit in the following types of contracts:

Cost-reimbursement contracts—These contracts are paid based on incurred costs (i.e., the government reimburses the contractor's costs that are allowable, allocable to the contract, and reasonable).

Fixed-price contracts (if contract changes and equitable adjustments are reimbursed on the basis of incurred costs)—In these contracts, the contractor agrees to do what is provided in the contract for a flat, fixed price that may be subject to adjustments in appropriate circumstances.

Types of Government Fraud

Cost Mischarging (continued)

There are three types of mischarges perpetrated by contractors:

Accounting mischarges—These occur when a contractor knowingly charges or conceals unallowable costs within allowable expenses or in accounts that are not closely monitored (e.g., office supplies). Another common variation involves charging types of costs with limits, such as bid and proposal costs or independent research and development costs, to other cost categories.

Material mischarges—Occasionally, material costs are mischarged, both as to their reasonableness and their allocation.

Types of Government Fraud

Cost Mischarging (continued)

There are three types of mischarges perpetrated by contractors:

Labor mischarges—Labor mischarging occurs when the contractor charges the procuring entity for work that was not actually performed. Labor costs are perhaps more susceptible to mischarging than material costs because, unlike other items of cost, labor is not supported by external documentation or physical evidence to provide an independent check or balance, and because employee labor can readily be charged to any contract.

Types of Government Fraud

Some common red flags of cost-mischarging schemes include:

Charging the same cost to more than one contract

Charging normal indirect costs as direct costs

A contractor has a mix of cost-type and fixed-price contracts

Transfers from cost-type contracts to fixed-price contracts

Costs still charged to the original job order, but no physical inventory is left on the job

Types of Government Fraud

Some common red flags of cost-mischarging schemes include:

Initial billings for actual material costs in excess of negotiated costs

Later billings that show a downward adjustment in material costs as labor/overhead costs increase

Contractor failed to report excess or residual inventory

Unusually large numbers of surplus items are written off to scrap

Excessive or unusual labor charges

Types of Government Fraud

Some common red flags of cost-mischarging schemes include:

Labor charges are inconsistent with contract progress

Apparent changes to timecards or timesheets

Timecards that cannot be found, or are “found” after a delay

Labor charges are inconsistent with contract progress

Timecards contain information that is altered

Types of Government Fraud

Some common red flags of cost-mischarging schemes include:

Supervisory employees, not the individuals, prepared the timecards

Education, credential, and experience qualification requirements for labor hour contracts are vague or appear minimal for the position needed

Types of Government Fraud

Commingling of Contracts

Like cost-mischarging schemes, commingling of contract schemes result in overcharging for goods or services. They are contractor fraud schemes perpetrated against the procuring entity.

Simply put, commingling of contracts occurs when a contractor bills for the same personnel, fees, or expenses under one or multiple contracts.

Types of Government Fraud

Commingling of Contracts (continued)

In situations where contractors are awarded more than one contract, they may collude with an employee of the procuring entity who will write similar work orders to facilitate the duplicate billing. As a result, each contract has provisions to allow for items that are in the other contracts.

Commingling schemes often involve *duplicate contract payments*. In these schemes, the contractor submits copies of the same invoices for payment, or submits more than one copy of the same invoice for the same goods and services, and is subsequently paid twice.

Types of Government Fraud

Commingling of Contracts (continued)

Some common red flags of commingling of contracts schemes include:

Contractor is holding more than one contract that has the same or nearly similar work statements

Contractor submits several invoices for the same or similar expense or work under different jobs or contracts

Contractor submits invoices for more than one job for the same time period

Types of Government Fraud

Commingling of Contracts (continued)

Some common red flags of commingling of contracts schemes include:

Procuring entity gives the same contractor multiple contract awards for similar work

The contractor bills the same employee to more than one job for the same time period

Contract and Procurement Fraud Indicators

Contract and Procurement Fraud Indicators

Acting beyond then Normal Scope of Duties – An employee who assumes responsibilities in procurement beyond or below his normal duties.

Appearance of an Unknown Bidder – A previously unknown or questionable bidder could be a shell company used by other bidders to submit complementary bids.

Award to Other than Lowest Bidder – Instances or a pattern of contract awards to other than the lowest bidder could suggest corruption, conflict of interest, bid rigging schemes to manipulate the bid process.

Contract and Procurement Fraud Indicators

Bad Reputation – Reputation, allegations and rumors of wrongdoing by an employee or company.

Bending or breaking the Rules – Significant instances of the purchaser bending or breaking the rules to favor a particular contractor or supplier.

Bid Information Available – The apparent leaking of competitor's bids or other confidential information by the purchaser.

Close Socialization – Close socialization by contracting personnel and contractors could suggest a corrupt relationship.

Contract and Procurement Fraud Indicators

Complaints About the Job – An employee who is unhappy about his compensation, promotions, working conditions, or lack of appreciation.

Different Specifications- Delivery of an item with specifications different from those specified in the purchase order ort contract. Continued acceptance of non-conforming items can mean corruption or a hidden interest in the supplier.

Discrepancies or Errors in Invoices, Labor Costs, Material Costs- Discrepancies or errors by am contractor, if continued, after notice of such problems might indicate corruption.

Contract and Procurement Fraud Indicators

Duplicate Documentation – Specifications, Cost charging, Performance, Payment, and Performance

Excusing Non-performance – A pattern of purchasing personnel excusing the failure of a particular contractor or supplier to perform and then rehiring the company.

Failed Tests or Inspections – A consistent pattern of significant instances of failed tests or inspections, especially if pattern is ignored or excused by the purchaser.

Failure to Accept Promotion – The failure of an employee to accept an apparently desirable promotion form a purchasing or contracting position might indicate that he is involved in fraud or corruption.

Contract and Procurement Fraud Indicators

Failure to File Conflict of Interest Statement – Failure to file the Statement or disclose pertinent information on such form might indicate corruption or a hidden interest in a supplier.

Failure to Take a Vacation - The failure of an employee to take a vacation or time off, or the occurrence of excessive working hours over an extended time period might be an sign of fraud.

Favoritism of a Particular Supplier – Repeated, unjustified or unexplained favorable treatment of a particular contractor or supplier is one of the most common indicators of corruption.

Contract and Procurement Fraud Indicators

Few Bidder Participate – A pattern of fewer than normal or expected bidders responding to proposals, or the award of a contract without the minimum number of bidders can indicate rigged specifications, the exclusion of qualified bidders, or collusive bidding.

Financial Problems – An employee with money problems might resort to fraud or corruption.

Gifts, Travel, and Entertainment – The acceptance of inappropriate gifts, travel, or entertainment by employees of the purchaser might signal the start of a corrupt relationship.

Contract and Procurement Fraud Indicators

High Employee Turnover – High turnover in the contract and procurement area can be an indicator of fraud or corruption.

High Price – Unusual or unjustified high prices, or explosive price increases, are common indicators of fraud.

High Volume Purchases – A supplier or contractor that obtains a very high volume or percentage of business when such business doe not seem justified might be paying kickbacks.

Ignoring Controls and Proper Procedures – The deliberate or repeated failure to enforce existing controls could suggest a fraud scheme.

Contract and Procurement Fraud Indicators

Improper or Excessive Change Orders – Excessive, expensive, or undocumented change orders suggest a variety of frauds, particularly manipulation of bids and corruption.

Instance on a Certain Subcontractor – An employee who insists that contractors use a certain subcontractor might have an undisclosed interest in the subcontractor.

Keen Interest in a Transaction or Contractor – An employee who takes an unusual keen interest in certain transactions, contractors, or accounts, or assumes responsibilities for matters beyond the normal scope of his duties, might be involved in fraud.

Contract and Procurement Fraud Indicators

Large Differences on Bid Prices – Large, unexpected differences in bid prices between bidders could indicate corruption or a conflict of interest.

Line Item Bids Too Low – An unusually low line item bid might indicate unbalanced bidding.

Living Beyond Means – Indications of an employee with procurement responsibilities is living beyond his apparent means could mean the employee is involved in a fraud.

Contract and Procurement Fraud Indicators

Low Bid Award Followed by Change Orders – Unjustified instances or a pattern of low bid awards, followed by change orders that significantly increase payments to the contractor, might indicate corruption involving the contractor and the purchaser.

Manipulation of the Bidding Process – Bid manipulation is usually the result of corruption involving the favored contractor and procurement personnel.

Multiple Purchases Just Under Bid Limit – Multiple awards just under the competitive bidding or upper-level review limits is one of the most useful indicators of contract and procurement fraud.

Contract and Procurement Fraud Indicators

Multiple Same or Similar Contracts – Two or more of the same similar contracts could provide the opportunity for a dishonest vendor to charge the same goods or services to both contracts.

Poor Quality – Consistent poor quality of service to product, late deliveries, and other persistent deficiencies can indicate fraud.

Price Discrepancies – Discrepancies between prices quoted and charged in a cost-type contract suggest possible defective pricing.

Contract and Procurement Fraud Indicators

Qualified Contractor Fail to Bid – The failure of qualified contractors to bid could indicate rigged specifications, manipulation of the bidding process, collusive bidding, or corruption.

Questionable Documents – Missing, altered, copies or other questionable documents could indicate a variety of fraud.

Questionable Sole-Source Awards – Sole-source awards in violation of procurement rules or standard procedures might indicate fraud or corruption.

Contract and Procurement Fraud Indicators

Tips and Complaints – Reports of wrongdoing, anonymous or otherwise, are the most common way to detect fraud.

Too narrow or Too Vague Contract Specifications – Unreasonably narrow contract specifications can be drafted to ensure the selection of a favored contractor.

Unknown vendor – A vendor for which there is little documentation or background information might be a shell company.

Contract and Procurement Fraud Indicators

Unusual Approval Pattern – the continued award of work to a contractor that previously failed to provide satisfactory goods, services or price might indicate corruption.

Unusual Bidding Patters – Unusual bidding patterns are indicators of possible collusive bidding, also know as bid rigging.

Employee and Vendor Information Matches – Address, telephone number or zip code.

Contract and Procurement Fraud Indicators

Vendor Not in Business Directories – An allegedly legitimate vendor that does not appear in business or telephone directories is obviously suspect.

Vendor Not on Approved Vendor List – Payments made to a vendor not on the approved vendor list are a prime indicator of a fictitious vendor scheme operated by an employee.

Vendors with Inappropriate Industrial Classification Codes – A vendor whose invoice reflect the sale of appropriate business items, but whose Standard Classification Code indicates that it is in a different type of business might be selling unnecessary goods or items intended for personal use.

Contract and Procurement Fraud Indicators

Weak or Unenforced Controls – Non-existent, weak, or unenforced controls inevitably lead to fraud and corruption.

Basic Investigative Steps in Contract and Procurement Fraud Cases

Preliminary Matters

Prediction: Investigation can not be conducted without a predication. Predication is the totality of circumstances that would lead a reasonable, professionally trained, and prudent individual to believe a fraud has occurred, is occurring, and/or will occur.

Understand the business: Tour the business; Interview key personnel; Analysis documents; review processes; watch employees do their job

Collecting documents: Chain of custody; Authentication; Database; and Lists

Basic Investigative Steps in Contract and Procurement Fraud Cases

Summary of the Basic Steps:

Begin the case

Do Background checks

Interviews

Document collection

Prove financial transactions

Write report

Basic Investigative Steps in Contract and Procurement Fraud Cases

Begin the case:

Tips or reports

Debrief the Informant

- Precise allegation
- Details: who, what, when, why, and how much
- Ask for records or documents
- Other witnesses
- Similar transactions
- Other person’s knowledge

Basic Investigative Steps in Contract and Procurement Fraud Cases

Do background checks:

Initial review confirms suspicion of fraud, the examiner must begin collecting information to conduct background checks on the suspect.

Discovering external information about the suspect contractor and employee.

Contractor checklist; check public records and the internet for general background information on the contractor. For example, ownership, customers, sales volume, and litigation history,

Basic Investigative Steps in Contract and Procurement Fraud Cases

Do background checks:

Employee checklist: Public and non-public information.

Public records; business filings; court records; real property; other public information

Non-public records: banking records, tax returns, credit reports, credit car account records

Basic Investigative Steps in Contract and Procurement Fraud Cases

Interviews

Preliminary analysis is complete, the fraud examiner should complete document collection and begin interviewing neutral third parties witnesses and corroborative witnesses. Possible to identify the subordinates and associates of the suspect employee who were involved in the suspect transaction.

Interview cooperative witnesses

Interview hostile witnesses

Interview suspect

Basic Investigative Steps in Contract and Procurement Fraud Cases

Document collection

Request: the simplest method used to obtain relevant documents is to request them.

Obtain documentary evidence by subpoena: Subpoenas are issued by the court. Call for the product of documents and records.

Obtain documentary evidence by search warrant: Search warrant are issued by a court judge. Based on probable cause that additional evidence is needed.

Right to audit clause in contract: Legal right to request pertinent documents.

Basic Investigative Steps in Contract and Procurement Fraud Cases

Prove financial transactions

At this stage the examiner should begin tracing the illegal proceeds from the suspected fraud scheme. Bribery, corruption, and fraud are examples of illegal activity that tends to be closely linked to the concealment of illicit funds.

Trace funds from the point of payment

Trace funds from the point of receipt

Basic Investigative Steps in Contract and Procurement Fraud Cases

Write the report

The final report should adequately answer the classical questions of who, what, why, where, when, and how.

General rules for writing the report: State only the facts; do not make errors.

Internal control report.