

An Introduction to Contract and Procurement Fraud

Rey Richards, MPA, CIA, CFE, PMP

Régina MacInnis, MBA, CIA, CFE, PMP

Introduction

Welcome and Introductions

Régina MacInnis

Régina is a Senior Audit Manager with the Province of Nova Scotia's Internal Audit Centre, where (through a combination of almost fifteen years of experience and a tailored education pathway), she utilizes a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes for the provincial government.

Régina's formal education path has resulted in attaining the following accreditations: Master of Business Administration (MBA), Certified Fraud Examiner (CFE), and Project Management Professional (PMP), Certified Internal Auditor (CIA).

As a CFE, Régina contributed to key anti-fraud related accomplishments in Nova Scotia. These included the established of an Association of Certified Fraud Examiners Chapter for the four Atlantic Provinces (former Director), the implementation of a provincial Fraud Hotline, and a Fraud Risk Management Program.



Welcome and Introductions

Rey Richards

- Rey is an Audit Manager for the Province of Nova Scotia's Internal Audit Centre with 10 years of experience, including 6 years conducting Procurement audits.
- Rey is currently focused on conducting fraud risk assessments and fraud investigations.
- Rey holds a Master of Public Administration and designations as a Certified Fraud Examiner (CFE), Certified Internal Auditor (CIA) and Project Management Professional (PMP).



AGENDA

Overview of the Training Program



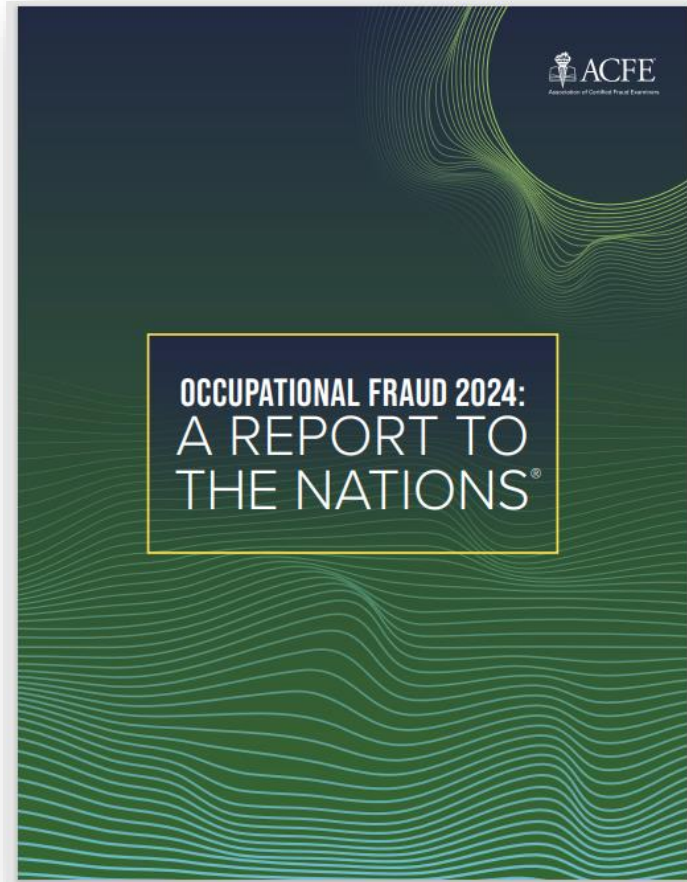
Understanding Fraud

- Understanding Contract and Procurement Fraud (10 minutes)
- Types of Fraudulent Activities (10 minutes)
- Detection via Red Flags (10 minutes)

Preparing for Fraud

- Prevention and Control Measures (10 minutes)
- Promoting Transparency and Accountability (5 minutes)
- Risk Management (5 minutes)

Real Word Examples



Understanding Contract and Procurement Fraud

Who? - What? - When?

WHAT?

Definition and Types of Contract and Procurement Fraud

What is Contract and Procurement Fraud?

Definition: Illegal activities aimed at gaining unfair advantage or financial gain during the procurement process.

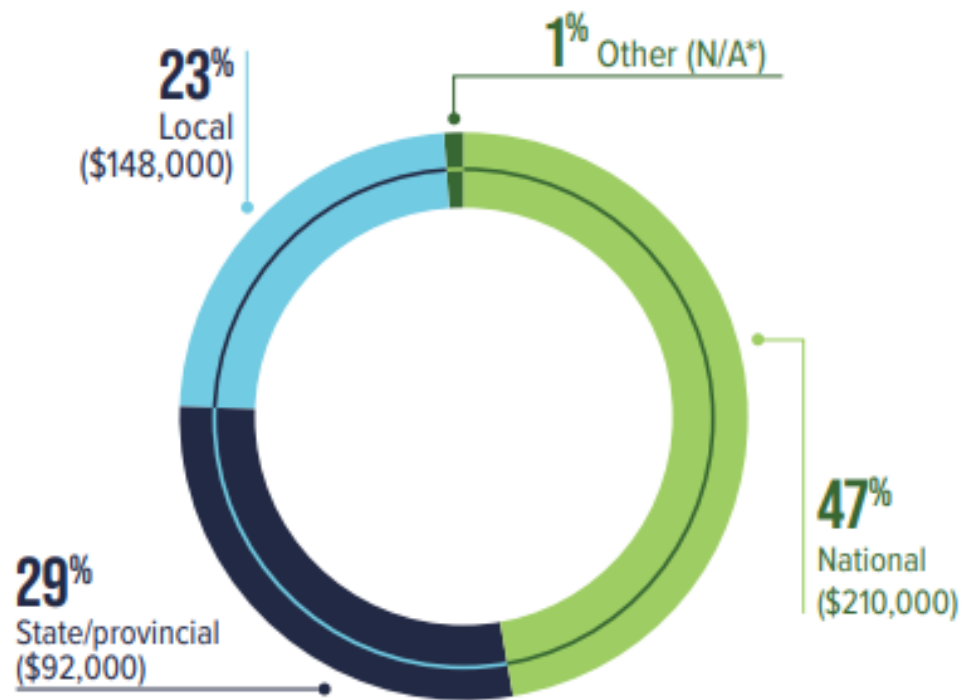
Common Types of Fraud:

- Bid Rigging
- Price Fixing
- False Representation
- Kickbacks / Illegal Gratuities
- Phantom Vendors
- Conflict of Interest



Victims

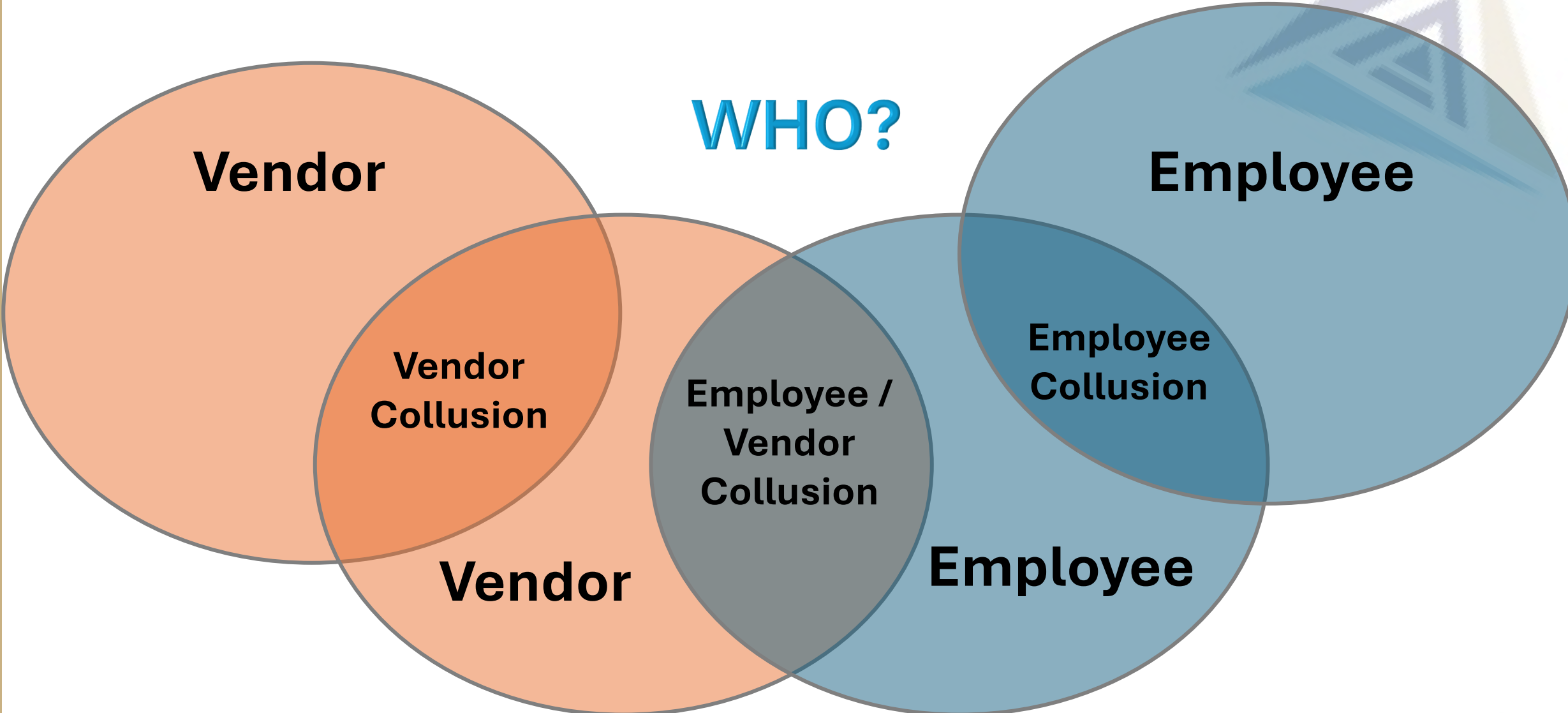
FIG. 21 WHAT LEVELS OF GOVERNMENT ARE VICTIMIZED BY OCCUPATIONAL FRAUD?



**Dollar amounts are median loss. Median loss calculations for categories with fewer than ten cases were omitted.*



Contract and Procurement Fraud

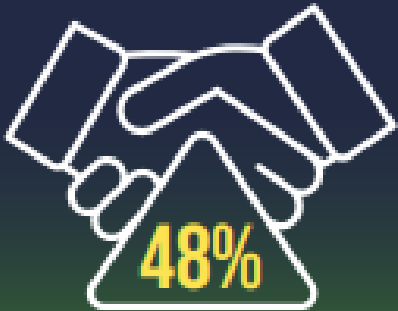


Contract and Procurement Fraud

WHO?

Vendor

Employee



CORRUPTION

Almost half of all reported cases included corruption

Collusion

Vendor

Employee

Contract and Procurement Fraud

WHEN?



Planning & Preparation

- Bribery
- Kickbacks
- Collusion
- Bid Rigging
- Extortion

Solicitation

- Kickbacks
- Collusion
- Bid Rigging
- Bid Splitting
- Extortion

Evaluation and Award

- Illegal Gratuities
- Collusion
- Performance Schemes

Post-Award Administration

- Illegal Gratuities
- Kickbacks
- Collusion
- Performance Schemes

Impact on Organizations



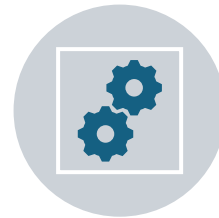
Financial Losses



Legal
Consequences



Reputation
Damage



Operational
Disruptions



Strategic Impact



Compliance and
Governance





Politics

Federal government refers three cases of suspected contractor fraud to RCMP

Government moving to recover estimated \$5 million

[Sarah Ritchie](#) · The Canadian Press · Posted: Mar 20, 2024 2:42 PM ADT | Last Updated: March 21



President of the Treasury Board Anita Anand, left, and Minister of Public Services and Procurement Jean-Yves Duclos participate in a news conference on the government's actions to strengthen procurement practices at the National Press Theatre in Ottawa on Wednesday, March 20, 2024. (Justin Tang/The Canadian Press)



Types of Fraudulent Activities

Types of Fraud – Bid Rigging



DEFINITION: Collusion between bidders to manipulate the outcome of a bidding process.

PHASE:



- Planning & Preparation
- Solicitation
- Evaluation and Award
- Post-Award Administration

TYPES:



- Bid Suppression
- Complementary Bidding
- Bid Rotation



NL

Price-fixing, bid-rigging found in St. John's school bus contracts

Trial averted as 13 companies agree to share fine

CBC News - Posted: Feb 20, 2009 3:14 PM AST | Last Updated: February 20, 2009



The Competition Bureau of Canada has ruled that more than a dozen bus companies in the St. John's area broke competition rules on school bus tenders.

The bureau found that 13 companies were involved in price fixing and bid-rigging during a three-year period, between 2001 and 2003.

The bureau determined that the bus services were essentially conspiring to limit competition in the marketplace, and were applying to tenders as a group.

Dermot Jardine, a Halifax-based assistant deputy commissioner for the Competition Bureau, said the moves violated competition rules.



Types of Fraud – Price Fixing



DEFINITION: Agreement between competitors to set prices at a certain level.

PHASE:



- ✓ Planning & Preparation
- ✓ Solicitation
- ✓ Evaluation and Award
- ✓ Post-Award Administration

TYPES:



- Horizontal Price Fixing
- Vertical Price Fixing



News

Air Canada fined in price-fixing scheme

EU penalizes 11 airlines a total of \$1.1B

The Associated Press - Posted: Nov 09, 2010 4:08 PM AST | Last Updated: November 9, 2010



The European Union has fined 11 airlines, Air Canada among them, a total of almost \$1.1 billion for fixing prices on international cargo shipments, leading to higher prices for businesses to move their goods.



Air Canada has been fined for price-fixing by the European Union. The airline escaped similar charges in Canada and the U.S. ((Frank Gunn/Canadian Press)

MoneyTalksNews

Apple Slapped With \$450 Million Fine for Price-Fixing

Krystal Steinmetz
July 2, 2015

Apple Inc. had its day in court and it lost. A federal appeals court upheld a 2013 ruling that the tech giant violated antitrust laws by conspiring with five major book publishers to raise digital book prices. Now Apple will have to cough up \$450 million to settle the e-book price-fixing case.

"The 2-1 ruling Tuesday by the 2nd U.S. Circuit Court of Appeals in Manhattan follows three years of litigation, millions of dollars in legal fees and a bold decision by Apple to challenge the U.S. Department of Justice to a trial, even after all the publishers with which it was accused of colluding had settled their cases," *The Wall Street Journal* said.

Types of Fraud – False Representation



DEFINITION: Providing false information to gain an unfair advantage.

PHASE:



- Planning & Preparation
- Solicitation
- Evaluation and Award
- Post-Award Administration

TYPES:



- Misrepresenting qualifications or experience.
- Falsifying financial statements.
- Providing false references.

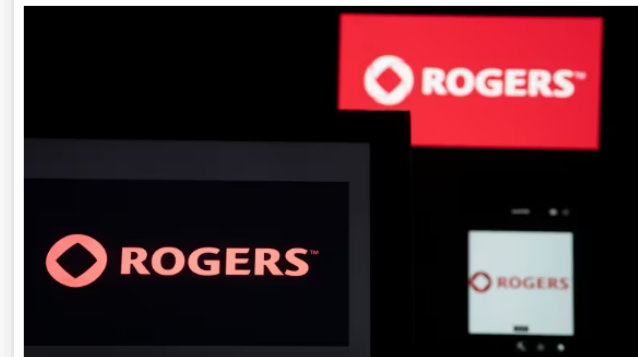


Business

Rogers told to produce records for Competition Bureau investigation of wireless phone plans

Probe of marketing campaign claims that Infinite wireless plans have unlimited data

The Canadian Press - Posted: Dec 04, 2023 5:15 PM AST | Last Updated: December 4, 2023



The Rogers logo is displayed on an iPad, iPhone and computer. The Competition Bureau has been granted an order by the Federal Court of Canada requiring Rogers Communications Inc. to produce records related to an investigation into the company's Infinite wireless phone plans. (IvanohDemers/CBC/Radio-Canada)

f in X 152 comments

Types of Fraud – Kickbacks / Illegal Gratuities



DEFINITION: Payments or gifts given to influence the awarding of contracts.



PHASE:



- Planning & Preparation
- Solicitation
- Evaluation and Award
- Post-Award Administration



TYPES:



- Kickbacks
- Illegal Gratuities
- Promotions or Job Offers

VANCOUVER | News

Concerns about alleged kickback scheme leads to investigation of CleanBC grants



TYPES



Politics · Analysis

ArriveCan is a mess – but the scandal hides some bigger questions

There are lessons here about how the public service ought to function – if anyone's willing to learn them



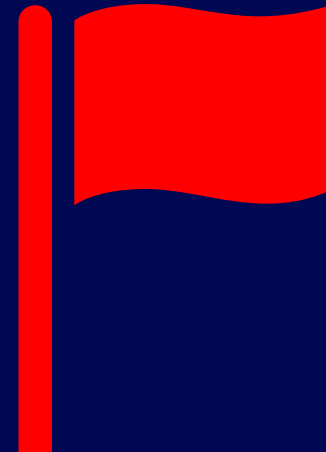
Aaron Wherry · CBC News · Posted: Feb 13, 2024 5:00 AM AST | Last Updated: February 13



Auditor General Karen Hogan waits in a hallway to begin a news conference on Monday, February 12, 2024 in Ottawa. (Adrian Wyld/The Canadian Press)



Detection via Red Flag



Importance of Red Flag Awareness



FIG. 13 HOW IS OCCUPATIONAL FRAUD INITIALLY DETECTED?

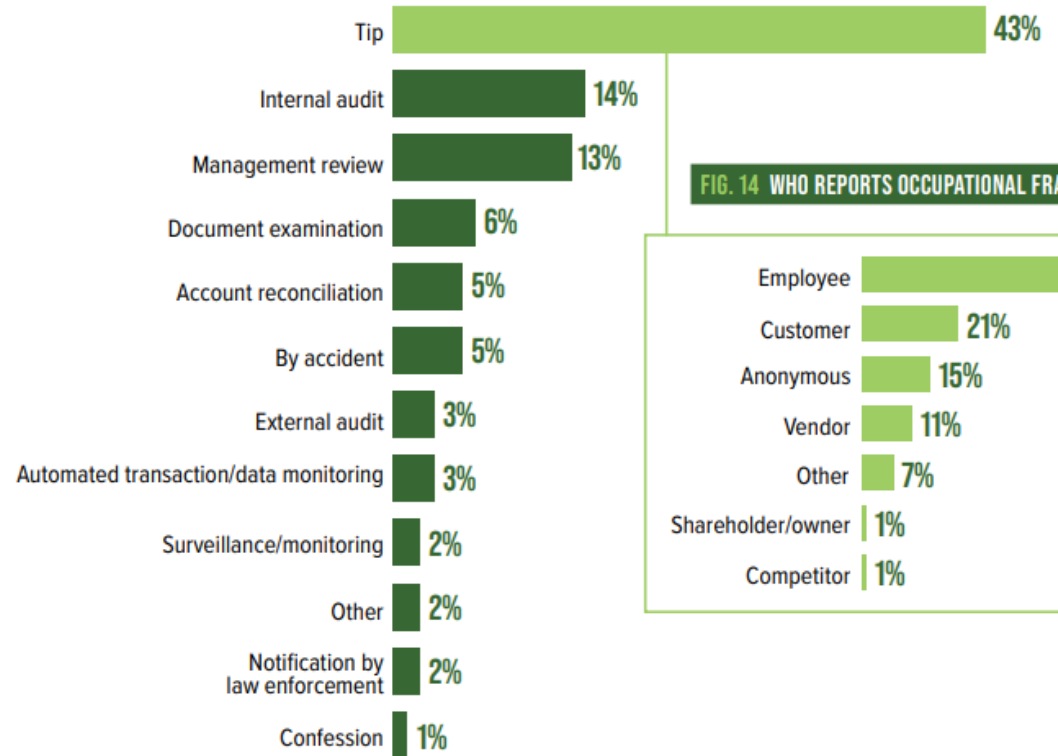
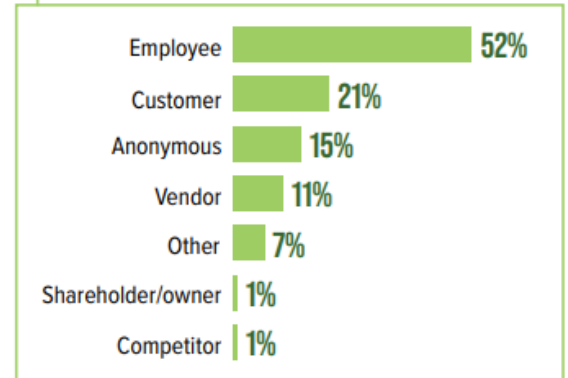


FIG. 14 WHO REPORTS OCCUPATIONAL FRAUD?



Types of Fraud – Bid Rigging



DEFINITION: Collusion between bidders to manipulate the outcome of a bidding process.

PHASE:



- Planning & Preparation
- Solicitation
- Evaluation and Award
- Post-Award Administration

TYPES:



- Bid Suppression
- Complementary Bidding
- Bid Rotation

RED FLAGS:



- Apparent Connections Between Bidders
- Bid Patterns
- Bid Submission Timing
- Unusual Bid Behavior
- Suspicious Relationships
- Unjustified Subcontracting

Types of Fraud – Price Fixing



DEFINITION: Agreement between competitors to set prices at a certain level.

PHASE:



- Planning & Preparation
- Solicitation
- Evaluation and Award
- Post-Award Administration

TYPES:



- Horizontal Price Fixing
- Vertical Price Fixing

RED FLAGS:



- Uniform Price Changes
- Stable Price Margins
- Parallel Behavior
- Identical Pricing
- Suspicious Meetings or Communication
- Bid Patterns
- Exclusion of New Entrants

Types of Fraud – False Representation



DEFINITION: Providing false information to gain an unfair advantage.

PHASE:



- Planning & Preparation
- Solicitation
- Evaluation and Award
- Post-Award Administration

TYPES:



- Misrepresenting qualifications or experience.
- Falsifying financial statements.
- Providing false references.

RED FLAGS:



- Inconsistent Information
- Unverifiable Credentials
- Lack of Documentation
- Frequent Changes

Types of Fraud – Kickbacks / Illegal Gratuities



DEFINITION: Payments or gifts given to influence the awarding of contracts.

PHASE:



- Planning & Preparation
- Solicitation
- Evaluation and Award
- Post-Award Administration

TYPES:



- Kickbacks
- Illegal Gratuities
- Promotions or Job Offers

RED FLAGS:



- Unjustified Favoritism
- Inappropriate Gifts and Entertainment
- Unexplained Wealth
- Non-Competitive Selection
- Suspicious Relationships



Toronto

TCH's CEO placed on administrative leave as external firm investigates contract

Employee who oversaw RFP process also placed on administrative leave, TCH's board says

CBC News · Posted: Dec 17, 2018 5:53 PM AST | Last Updated: December 17, 2018



Kathy Milsom, CEO of Toronto Community Housing Corporation, is on administrative leave, the board says. (Gary Morton/CBC)



CASE STUDY



Toronto

TCH's CEO placed on administrative leave as external firm investigates contract

Employee who oversaw RFP process also placed on administrative leave, TCH's board says

CBC News · Posted: Dec 17, 2018 5:53 PM AST | Last Updated: December 17, 2018



Kathy Milsom, CEO of Toronto Community Housing Corporation, is on administrative leave, the board says. (Gary Morton/CBC)



April 30, 2014

Unrue(y) Behaviour: An Investigation into Toronto Community Housing Corporation's Human Resources Policies and Practices

[Read the Full Report \(PDF\)](#)

The Issue

We received numerous complaints from former and current non-unionized employees at Toronto Community Housing Corporation (TCHC) – the allegations ranged from improper hiring and promotions to irregular compensation and unfair terminations. The complaints suggested there had been violations of TCHC's human resources policies and practices.

Our Investigation

We interviewed over 60 witnesses, including current employees, former staff, and members of TCHC's Board of Directors. We also completed an extensive document review, including 16 bankers' boxes of data with 190 employee files and 119 competition files.

What We Found

The investigation found that the problems at TCHC began in June 2012, with the arrival of a new CEO, who was given a mandate to make changes and move the corporation forward.

As a part of this process, 96 new staff members were hired between June 2012 and the end of October 2013. These included a Chief Executive Officer (CEO), a Chief Financial Officer (CFO), a Chief Development Officer (CDO), a Chief Operating Officer (COO), and a new VP of Human Resources (VP HR).

There were either no records or no competitions held in 19% of the external hires. Some staff members were hired without job postings. When questioned about these situations individually, the VP of HR stated that the particular case in question was unusual, or that the best person for the job had been found.

There were also a total of 76 promotions and reclassifications. At the same time, 88 left TCHC, 45 of whom were terminated, 32 resigned, and 11 retired.

The process by which the change occurred created chaos, with some senior staff breaking TCHC human resources policies and practices.

Prevention and Control Measures

Understanding the Fraud Triangle

Why do people commit fraud?



THE FRAUD TRIANGLE



The Fraud Triangle by Donald R. Cressey

Implementing Robust Control Measures

Key Procurement Goals:

Open, fair and transparent
Encourage competition
Obtain value for money

How can procurement fraud
impact these goals?

Preventative controls

- **Limit** incidents from occurring

Detective Controls

- **Identify** incidents after they have occurred

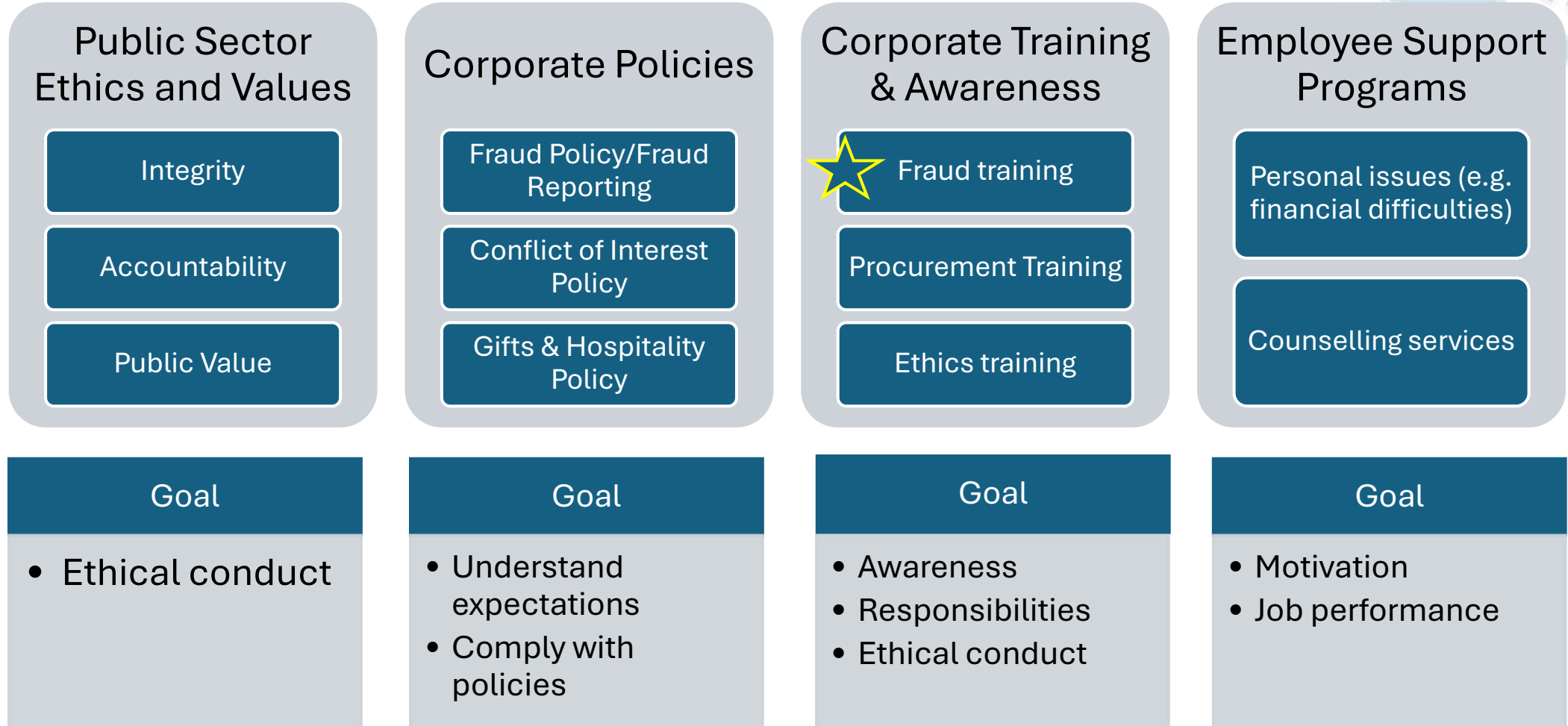
Corrective Controls

- **Respond** to incidents after they have occurred



Preventative Controls:

Robust Corporate Policies and Practices



Preventative Controls:

Documented Procurement Policy and Procedures

Procurement Policy and Procedures

Procurement types

Procurement thresholds

Procedures to be performed

Internal Controls

Segregation of duties

Oversight and Approvals

Supporting documents



Preventative Controls:

Vendor and Contract Management

- ★ Conducting Vendor Due Diligence
- Requiring Vendor's Conflict of interest declaration
- Requesting Subcontractor List
- Outlining specific prohibited activities
- Including a Right to Audit clause
- Conducting Vendor Debriefs
- Safeguarding Vendor Master List

**not an exhaustive list*

Preventative Controls

Benchmarking using Self-Assessments



Part III – Criteria	POINTS	SELF-SCORE
1. Procurement Ethics Standards	5	
2. Electronic Procurement Manual	5	
3. Professional Development Program	10	
4a. Internal Department Customer Service Survey	5	
4b. External Vendor Customer Service Survey	5	
4c. Internal Customer Department Training	5	
4d. Formal Vendor Training	5	
4e. Performance Measures	10	
5. Centralized Procurement Authority	10	
6. Organizational Structure	5	
7a. Internal Procurement Automation	10	
7b. Electronic Sourcing	10	
7c. Electronic Evaluations and Automated Scorecard	10	
8a. P-Card System / Electronic P-Card Manual	5	
8b. Comprehensive P-Card Program Audit or Certification	5	
9. Use of Term/Requirements Contracts	5	
10a. Certification/Chief Procurement Official	10	
10b. Certification/Professional Staff	10	
11a. Education/Chief Procurement Official	5	
11b. Education/Professional Staff	5	
12. Association Leadership Position	10	
13. Presenter/Panel Member/Author	10	
14. Adoption of Best Value Procurement Method	10	
15a. Sustainable Procurement Policy/Program	5	
15b. Sustainable Procurement Best Practices	5	
16. Cooperative Procurement Strategy	5	
17. Contract Award Authority	5	
18. Continued Pursuit of Excellence	10	
TOTAL POINTS ACHIEVED	200	



THE NATIONAL PROGRAM TO BENCHMARK ORGANIZATIONAL EXCELLENCE IN PROCUREMENT



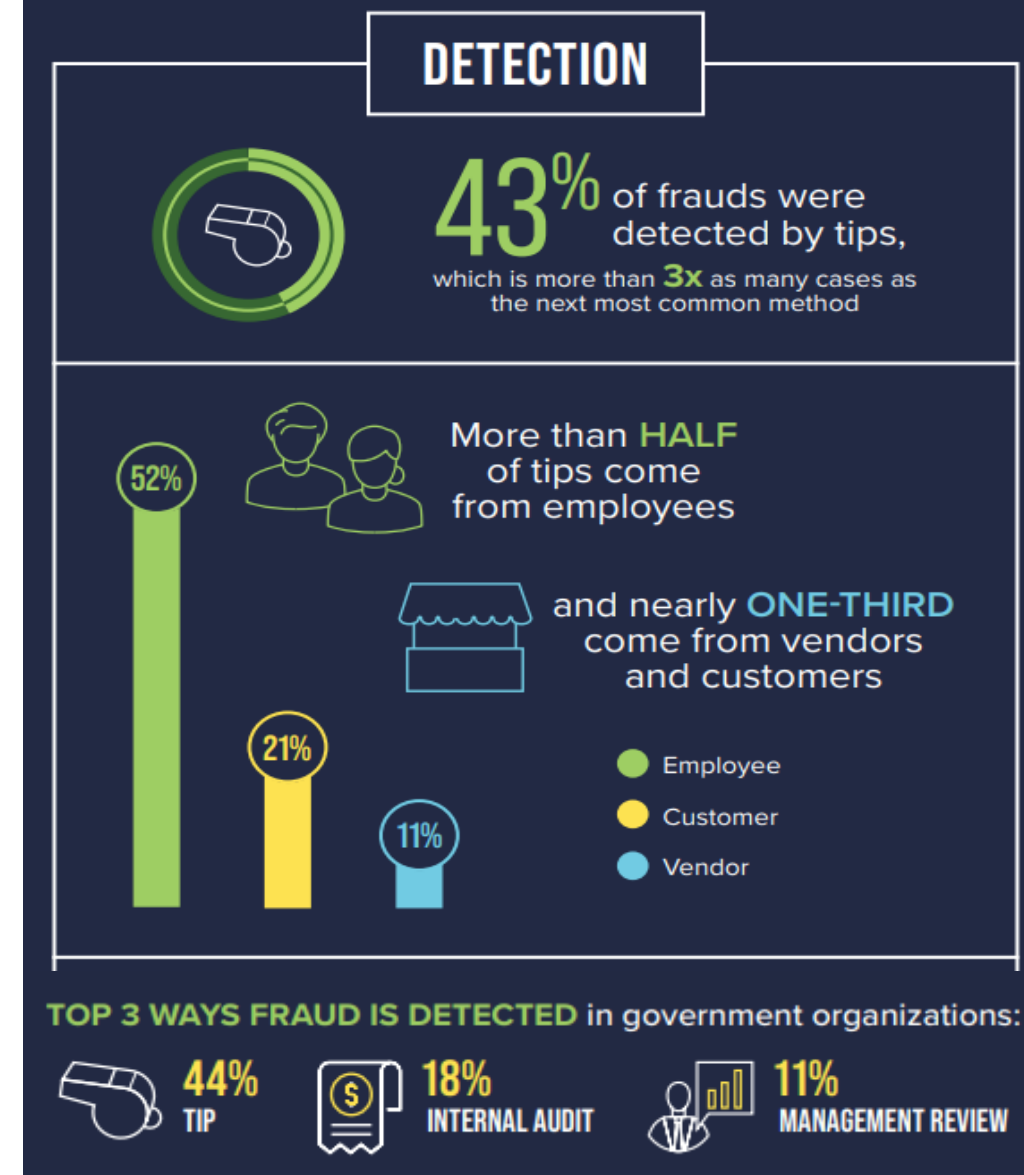
Fraud Risk Management Scorecards

Detective Controls

Identify red flags of procurement fraud



“There is no greater tool in the detection of procurement fraud than a network of employees who are knowledgeable about fraud and look for indicators of their organization’s vulnerabilities” ACFE



Corrective Controls

Responding to Red Flags of Procurement Fraud



Revision of policies & procedures

- Where did controls fail?
- Where did processes lapse?

Fraud Investigations Process

- Initiate a Fraud Investigation (internal, external)
- Escalation to Law Enforcement
- Outcomes:
 - Initiate HR actions
 - Pursue Legal actions (civil, criminal, counter-suits)

Promoting Transparency and Accountability



Strategies to Foster a Culture of Transparency and Accountability

- Tone at the top**
 - Do senior leaders demonstrate ethical values in their actions?
- Supervision and oversight**
 - Are adequate segregation of duties present in the procurement process?
 - Is management holding employees accountable?
- Transparency in reporting**
 - Are tenders accessible to vendors?
 - Is award information posted publicly?
- Documentation to support procurement decisions**
 - Are procurement decisions defensible?
 - Are financial records retained?

Public Notices and Standing Offer Opportunities

Select one of the tabs below to view Public Tender Notices, Alternative Procurement Notices, or Standing Offer Contracts with on-going onboarding of Suppliers. For access to additional features, click "Log In" above.

Tenders **25.3k** Alternative Procurement **2.2k** Standing Offer Contracts **16**

Total cost of ArriveCan 'impossible to determine' due to poor record-keeping, AG report finds

Previous reports suggest there were irregularities in the app's procurement process

 [Darren Major](#) · CBC News · Posted: Feb 12, 2024 5:00 AM AST | Last Updated: February 13

Risk Management

Role of Risk Management in Preventing Fraud

What can I do today?

Conducting a Fraud Risk Assessment

Identify fraud risks

Assess the likelihood and impact

Identify potential fraud schemes

Identify mitigating controls

Creating a Fraud Response Plan



Defined fraud risk response plan
(prior to incident)

How is fraud defined?

Who will be involved?

How will we protect/preserve records?

Should corrective actions be taken?

Q&A and Closing Remarks