

The Auditor General is appointed by the Joint Legislative Audit Committee, a bipartisan committee composed of five senators and five representatives. Her mission is to provide independent and impartial information and specific recommendations to improve the operations of state and local government entities. To this end, she provides financial audits and accounting services to the State and political subdivisions, investigates possible misuse of public monies, and conducts performance audits of school districts, state agencies, and the programs they administer.

TO OBTAIN
MORE INFORMATION

(602) 553-0333



or by visiting
our Web site at:
www.azauditor.gov

Contact person:
Holly Graham



2010

March • Alert 10 – 01

Procurement Fraud

Kickbacks. Favored vendors. Expedience.

Just some of the reasons that an employee may have for committing procurement fraud. But procurement fraud is one of the most common fraud schemes we investigate.

Procurement fraud schemes result from awarding contracts for goods and services without the benefit of full and open competition. The effect can result in an entity paying more for goods and services than they are worth. In some cases, kickbacks such as cash, free travel, free sporting events, or other gifts can be given to the employee who carries out this scheme against the entity. In other cases, the employee decides to expedite the purchasing process to help a vendor who is a friend or relative, or just to make his or her job easier.

Some of the more frequent procurement fraud schemes that we encounter are described as follows:

Emergency Procurement/Sole Source: An employee responsible for purchasing waives required steps in the process claiming an emergency or that goods or services are only available from a single vendor.

Split Purchases: Purchasing policies generally require that bids are solicited for purchases over a set dollar amount. To avoid competitive selection, an employee breaks a large purchase into several smaller pieces that fall below the mandatory bidding level.

Bid Manipulation: An employee manipulates bid specifications, sometimes with the help of a vendor, to give an unfair advantage to a favored contractor or supplier. Often the contract awarded does not reflect the actual goods or services needed. Change orders are then used to modify the contract.

Override of Controls: We have also investigated several procurement frauds in which senior management has intentionally overridden purchasing policies to award contracts to favored vendors.

What You Can Do to Protect Your Entity

These fraud schemes cost Arizona taxpayers money! A few well-placed internal controls can help protect your entity from procurement fraud.

- Establish clear policies, procedures, and documentation requirements for the procurement process.
- Have an employee independent of the procurement function periodically review purchases for compliance with established policies and procedures.
- Segregate the accounts payable function from the purchasing function and limit access to the vendor master file to authorized employees.
- Establish clear lines of authority for the approval of purchases. Purchases above established dollar thresholds and emergency and sole source purchases should be approved by senior management or the governing board.