



***LESSONS LEARNED IN
REVIEWING
PROCUREMENT INTEGRITY
CONTROLS***

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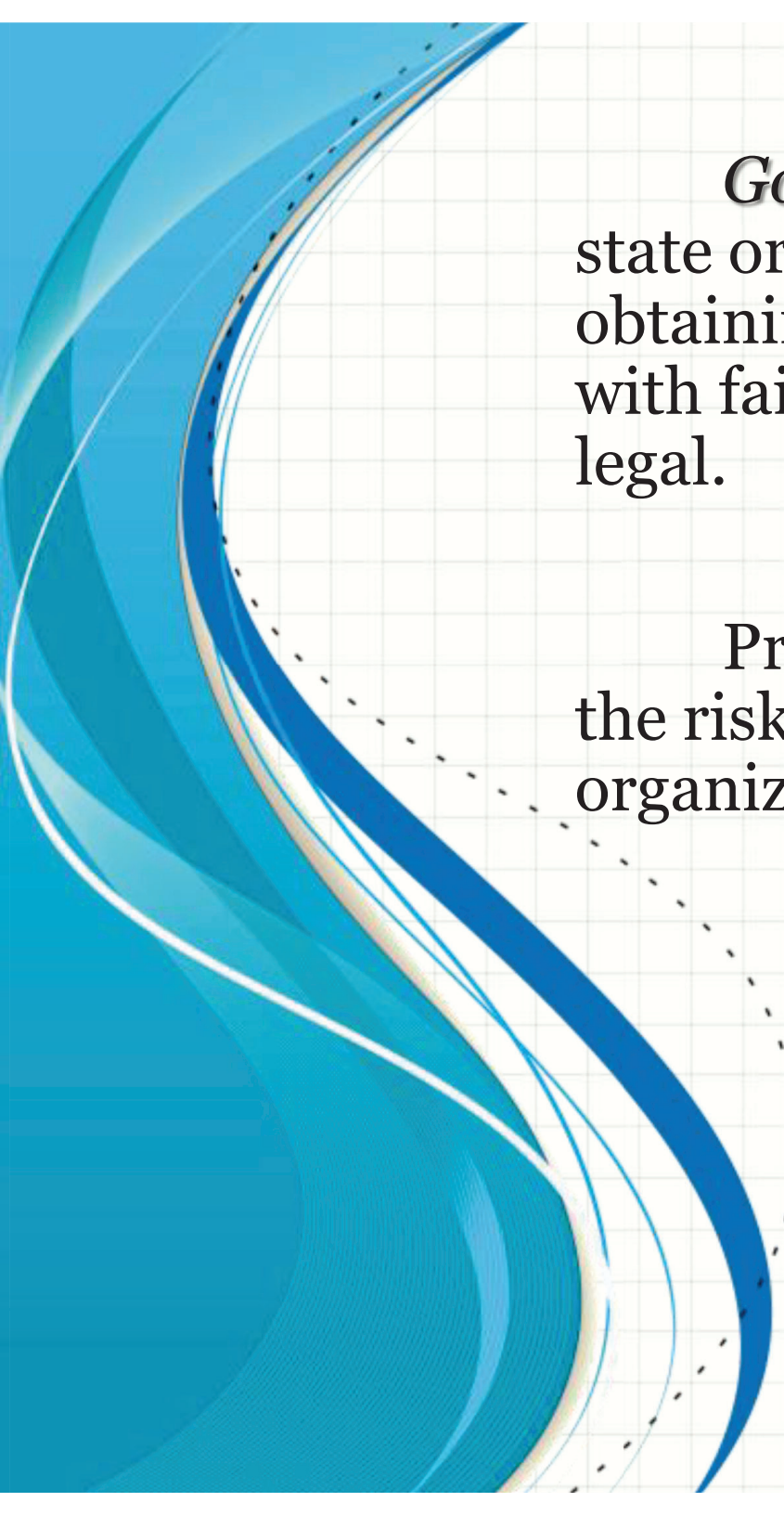


Background on the Lessons Learned Definitions

- Procurement Integrity - *Goal*
- Procurement Integrity Controls - *Protection*
- Fraud - *Risk*
- Procurement Fraud - *Risk*
- Procurement Abuse - *Risk*

Five Personality Risk Profiles - *Risk*
COSO and Procurement Integrity Controls


TODAY'S OBJECTIVES



Goal of Procurement Integrity - The state or condition where all phases of obtaining goods and services are performed with fairness, honesty, impartiality, and legal.

Procurement Integrity goes beyond the risks of fraud or abuse and supports the organization's objectives for success.

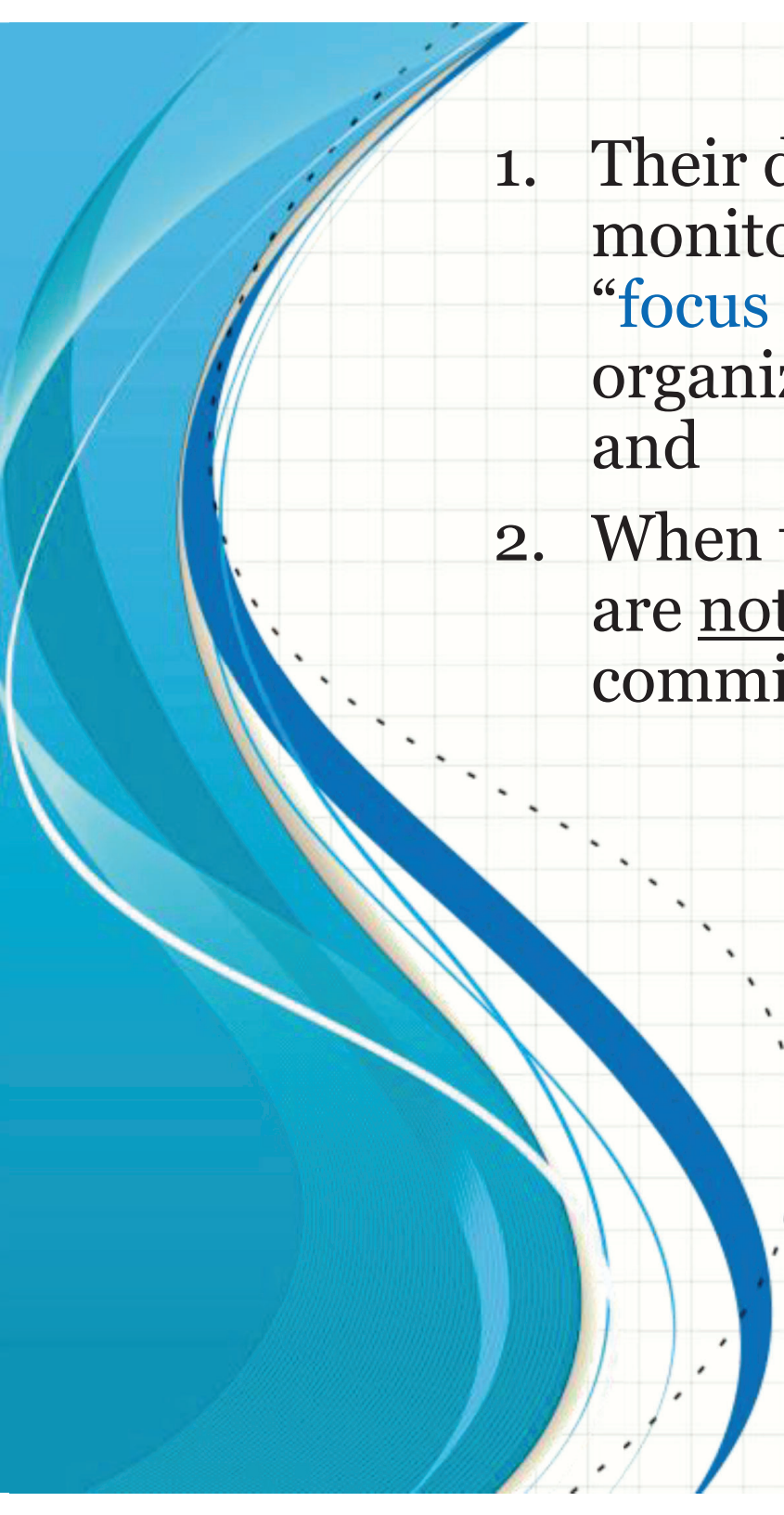
**DEFINE
PROCUREMENT INTEGRITY**



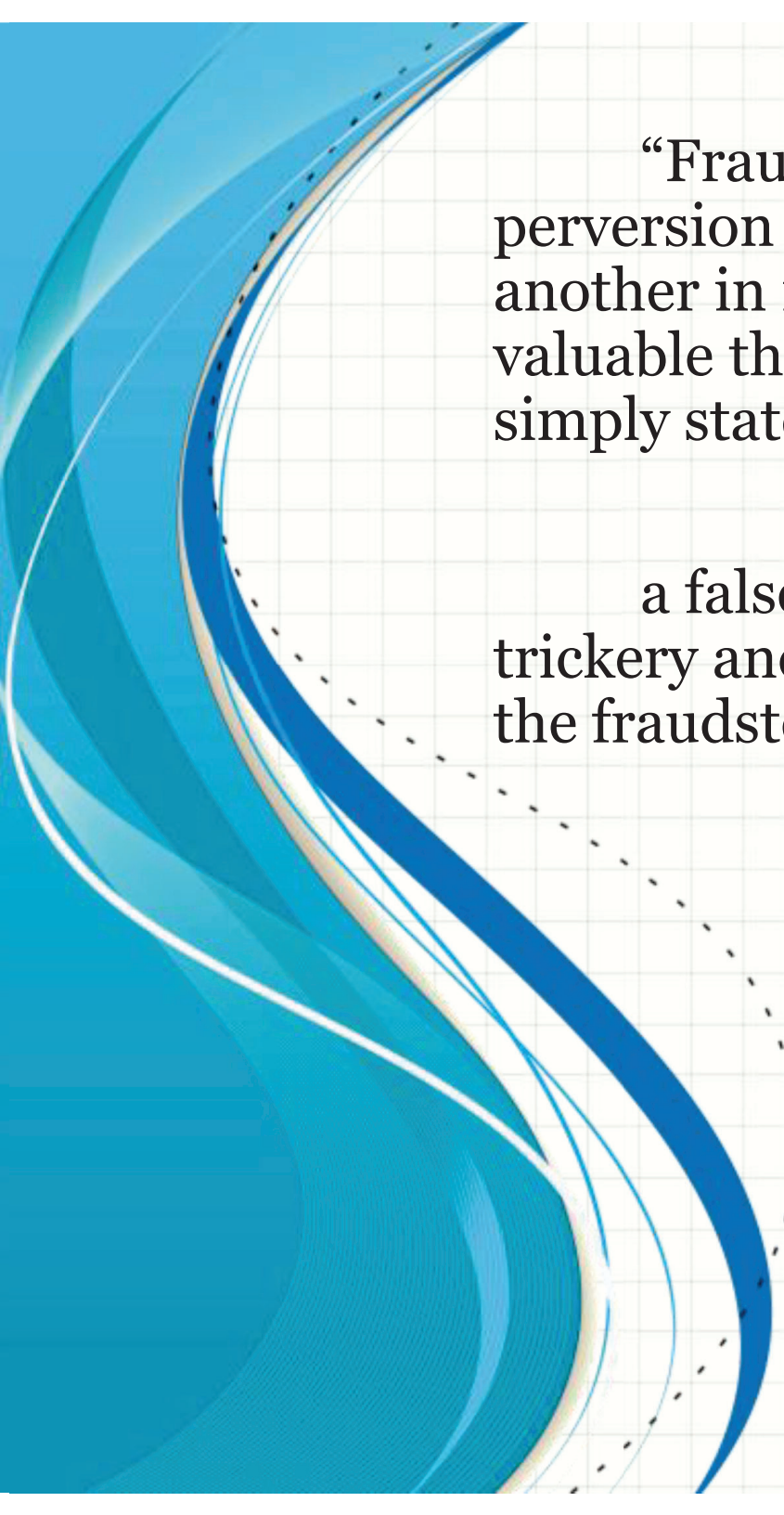
*“the aggregate of the organization’s people, processes, procedures, and management systems that are **uniquely designed to the organization** and provide reasonable assurance regarding the prevention, deterrence, detection, and prompt reporting of abuse, fraud, or non-compliance within organizational procurements*”*

**DEFINE
PROCUREMENT
INTEGRITY CONTROLS**

* Procurement Integrity Consulting Services, LLC

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1. Their development, deployment and monitoring was not done with a specific “focus on” and “tailored to” the organization’s unique procurement risk – and
 2. When the procurement integrity controls are not operating within an environment committed to procurement integrity

**PROCUREMENT INTEGRITY
CONTROLS
ARE VULNERABLE WHEN:**



“Fraud” is legally defined as “an intentional perversion of the truth for the purpose of inducing another in reliance upon it to part with some valuable thing or to surrender legal right*” or simply stated –

a false representation of the truth, involving trickery and deception in order to illegally enrich the fraudster

FUNDAMENTALS OF PROCUREMENT FRAUD

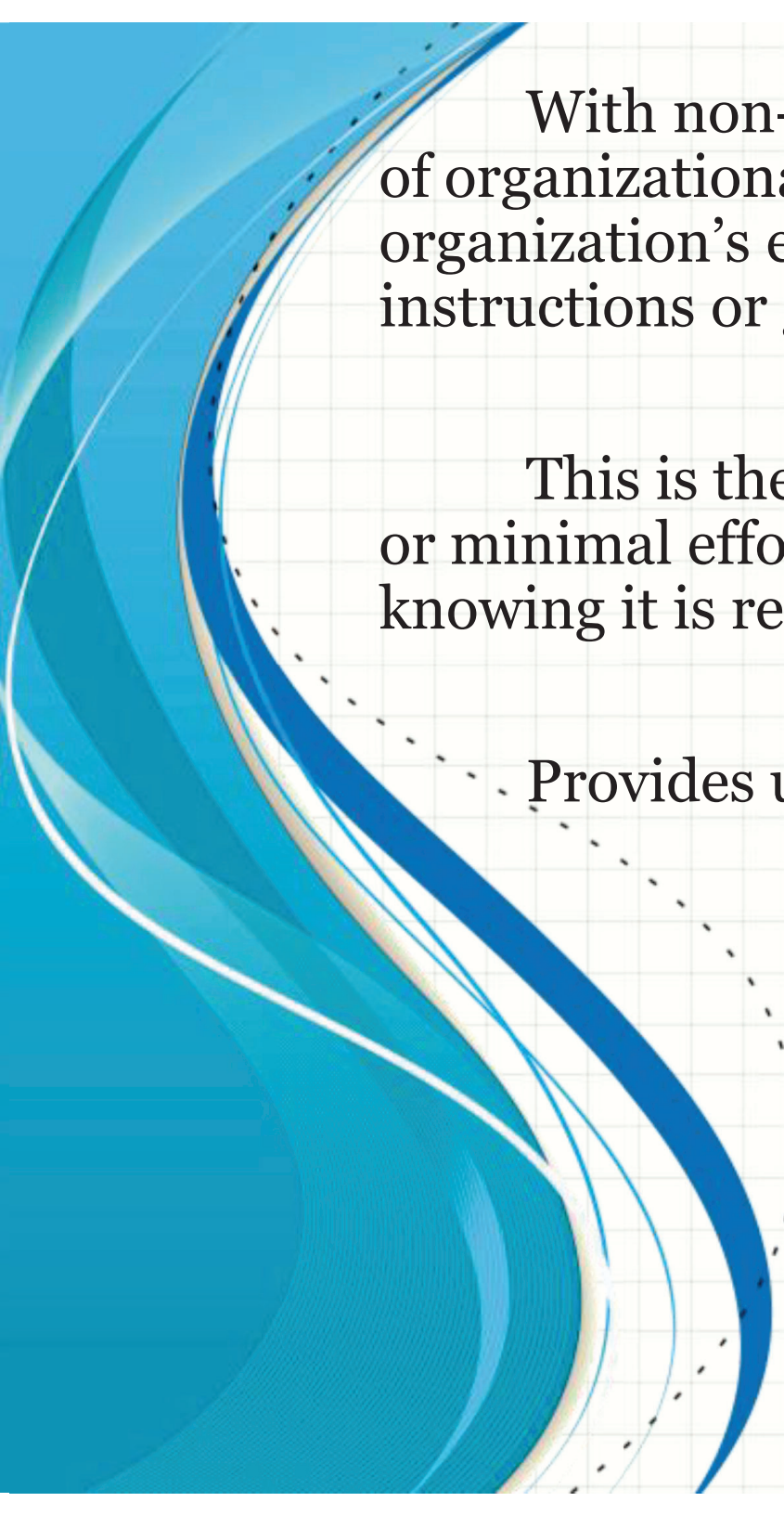
* Black’s Law Dictionary, 6th ed., by Henry Campbell Black, West Publishing Co, 1979



What if the person makes a non-material false representation in the procurement process and is not personally enriched by their actions?

For example an employee creates savings for the company by cutting out some of the quality control steps, or "steers" a contract to a friend or a sub-contractor they have worked with prior because they simply enjoy working with them – its not fraud.

PROCUREMENT ABUSE



With non-compliance I am referring to the failure of organizational employees to follow their own organization's established procurement rules, policy, instructions or guidance.

This is the organizational employee who puts little or minimal effort into a specific procurement step knowing it is required – its not fraud or abuse.

Provides unlimited opportunities for fraud !

NON-COMPLIANCE

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

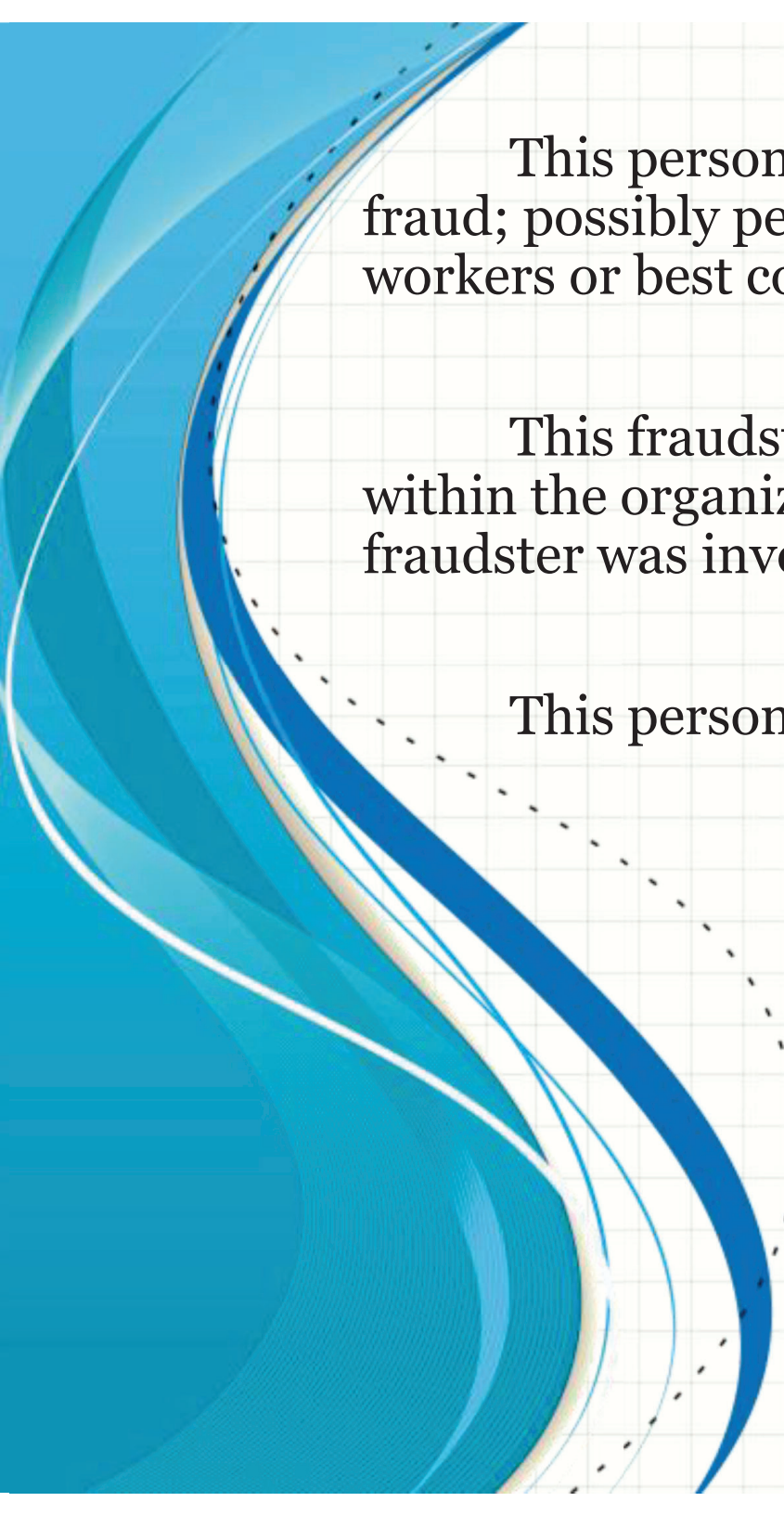
PROCUREMENT'S PERSONALITY RISK PROFILES



This is the person most will identify as the traditional “Fraudster.”

This Fraudster is the employee that seems to be frustrated at work; who has rationalized his/her right to an illegal enrichment; and simply perpetrates the fraud scheme when the right occasion occurs; normally because of a weak internal control.

PROCUREMENT’S SITUATIONAL FRAUDSTER



This person is proactive for opportunities to commit fraud; possibly perceived as one of the company's hardest workers or best contractors; and carries a "veil of trust."

This fraudster will have a strong group of advocates within the organization who will deny any assertion that the fraudster was involved with any wrongdoing.

This person is sometimes described as a "wheeler-dealer."

PROCUREMENT'S DEVIANT FRAUDSTER



This person abuses the procurement process to advance their own interest and/or the interest of another.

This is done to help a friend in getting a contract, or to ensure the award goes to a preferred contractor of the abuser, or even helping family members – its not defined as fraud.

This is the person who drafts contract specifications to a specific contractor; or embellishes the need for a "sole-source" justification to avoid a fully competitive process; or "slants" technical evaluations to a specific bidder.

PROCUREMENT'S MULTI-INTEREST ABUSER




This is normally an employee who has been with the organization for several years and has a good working knowledge of procurement processes and knows how to advance their own idea of efficiency.

They will not identify the true scope of a requirement to ensure the contract remains under a particular dollar threshold thereby allowing the award to be expedited.

This employee knows what key descriptions to use, or not use, to avoid any additional procurement steps.

**PROCUREMENT'S
WELL INTENTIONED
NON-COMPLIANCE EMPLOYEE**




This employee puts little or minimal effort into a specific procurement step for example not checking a contractor's bond, or not examine a contractor's past performance record, or not confirm a contractor's deliverable prior to approving payment.

The actions, or lack of actions, by this disengaged person is the byproduct of a disgruntled or dissatisfied employee.

PROCUREMENT'S DISENGAGED NON-COMPLIANCE EMPLOYEE

According to a Gallup poll of 142 countries' - 24% of workers are "actively disengaged."

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1. **Procurement Integrity Controls** – need to be development, deployment and monitored with a specific “*focus*” on and “*tailored*” to the organization’s unique risk/vulnerabilities not just to procurement fraud, but also procurement abuse and non-compliance to organizational procurement policy, rules, etc.
 2. **Procurement Integrity Controls** – need to operate within an environment committed to procurement integrity.

KEY

“*FOCUSED & TAILORED*”



*“The control environment
comprises the integrity and ethical
values of the organization”*

Procurement Integrity Controls – need to
operate within an environment
committed to procurement integrity !

**COSO
CONTROL ENVIRONMENT**



Procurement scheme focused risk assessment was the most overlooked component of effective procurement integrity controls.

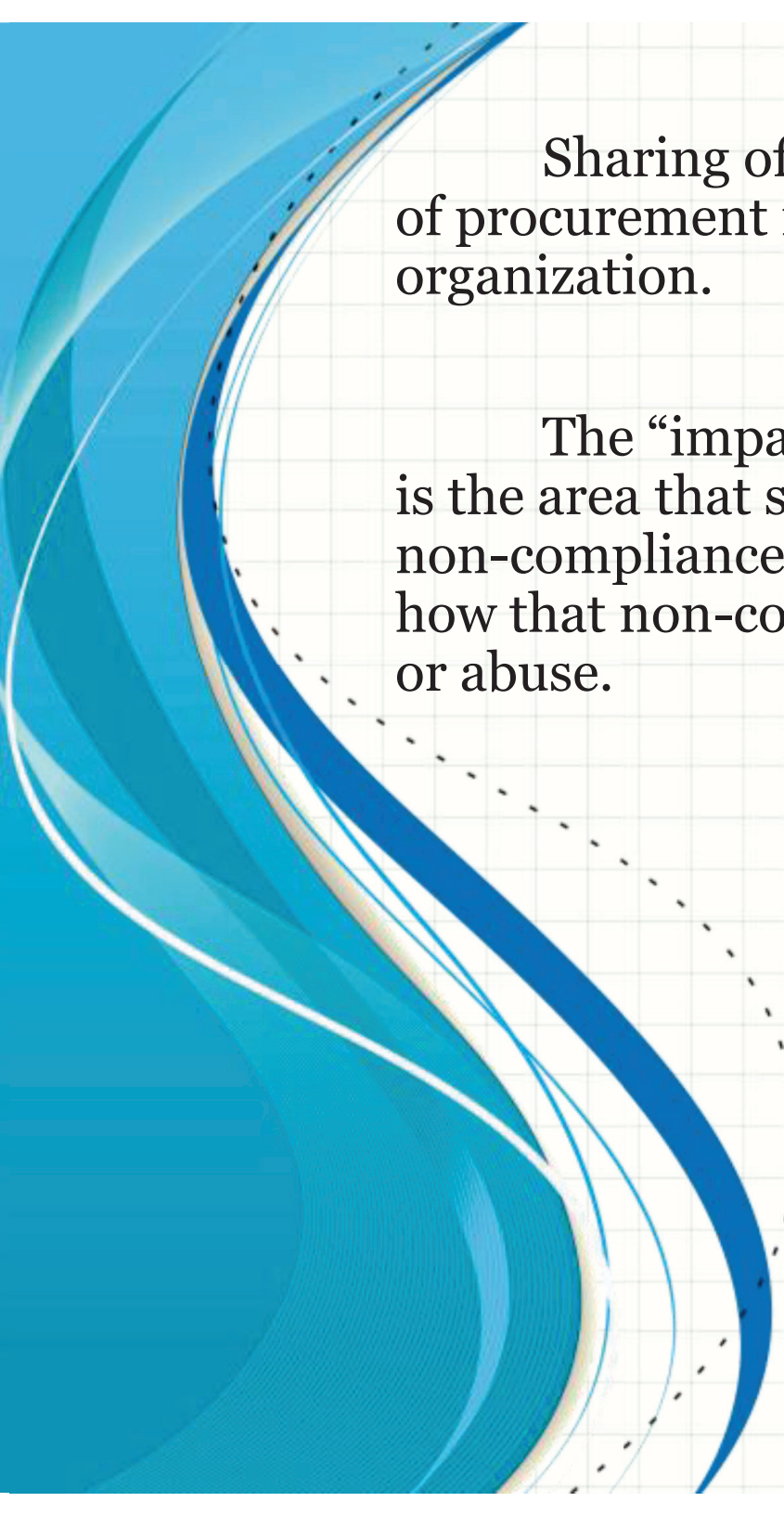
Demonstrate procurement integrity controls are focused and designed to the organization's greatest risks to the traditional procurement fraud and abuses in today's contracting schemes, along with non-compliance to procurement processes.

RISK ASSESSMENT



“Control activities are the actions established through policies and procedures that help ensure that management’s directives to mitigate risks to the achievement of objectives are carried out.”


COSO ACTIVITY CONTROLS



Sharing of information and training on the various types of procurement risk and equally important, their impact to the organization.


The “impact to the organization of the non-compliance” is the area that seems to be missed frequently - the impact of non-compliance to procurement policies and procedures and how that non-compliance opens the organization to fraud and or abuse.

INFORMATION SHARING



“Ongoing evaluation, separate evaluations, or some combination of the two are used to ascertain whether each of the five components of internal control, including controls to effect the principles within each component, is present and functioning.”

COSO MONITORING



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.

CLOSING



QUESTIONS ?

Thank You – Tom Caulfield
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