Contracting Processes, Internal Controls, and Procurement Fraud: A Knowledge Assessment

Juanita M. Rendon
Rene G. Rendon
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Presented at the 12th Annual Acquisition Research Symposium held May 13-14, 2015 in Monterey, CA.
Overview

• Background
• Theoretical Foundation
• Research Methodology
• Research Findings
• Implications of Research
• Department of Defense (DoD) obligated over $300B in FY2013 contracts (GAO, 2014)

• Deficiencies in DoD contract management result from lack of trained personnel, immature contracting processes, and weak internal controls (DoD, 2009, 2015)

• DoD contract management deficiencies result in higher level of vulnerability for procurement fraud
• The typical organization loses five percent of its revenues to fraud (ACFE, 2013b)

• DoD contracting workforce is key to deterring procurement fraud

• Knowledge of the procurement process and internal controls and their relationship to fraud vulnerabilities are critical
Theoretical Foundation
• Purpose of Research: Assess DoD contracting officers’ knowledge of contract management processes, internal controls, and procurement fraud schemes.
1. What is the contracting workforces’ knowledge level of procurement fraud as related to contract management processes, internal control components, and procurement fraud scheme categories?

2. What is the contracting workforces’ perception of procurement fraud as related to the contract management processes, internal control components, and procurement fraud scheme categories?
Research Methodology

- Development of web-based assessment tool
  - Knowledge assessment items
  - Organization perception items
- Deployment of assessment tool
  - U.S. Army Mission Installation Contracting Command
<table>
<thead>
<tr>
<th>Contracting Phase</th>
<th>Number of Questions</th>
<th>Procurement Fraud Scheme Category</th>
<th>Number of Questions</th>
<th>Internal Control Component</th>
<th>Number of Questions</th>
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</thead>
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<tr>
<td>Procurement Planning</td>
<td>5</td>
<td>Collusion</td>
<td>3</td>
<td>Control Environment</td>
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<td>Solicitation Planning</td>
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<td>Solicitation</td>
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<td>Bid Rigging</td>
<td>6</td>
<td>Control Activities</td>
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<td>Source Selection</td>
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<td>Billing/Cost/Pricing Schemes</td>
<td>4</td>
<td>Information and Communications</td>
<td>4</td>
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<tr>
<td>Contract Administration</td>
<td>5</td>
<td>Fraudulent Purchases</td>
<td>3</td>
<td>Monitoring Activities</td>
<td>7</td>
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<td>Contract Closeout</td>
<td>2</td>
<td>Fraudulent Representation</td>
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Average Score by Employment Status

- Civilian: 62.4%
- Military: 64.3%
Average Score by Experience

- 0 to 2 years: 55.4%
- 3 to 5 years: 58.6%
- 6 to 10 years: 62.7%
- 11 to 20 years: 63.1%
- Over 20 years: 70.5%
Average Score by DAWIA Level

- None: 44.2%
- Level I: 56.0%
- Level II: 60.9%
- Level III: 67.0%
Average Score by Warrant Status

- Non-warranted: 58.9%
- Warranted: 66.8%
Average Score by Contract Management Process

- Procurement Planning: 75.4%
- Solicitation Planning: 58.2%
- Solicitation: 67.3%
- Source Selection: 46.5%
- Contract Administration: 63.2%
- Contract Closeout: 36.4%
Average Score by Internal Control Component

- Control Activities: 65.7%
- Control Environment: 49.2%
- Information &...: 46.1%
- Monitoring: 58.2%
- Risk Assessment: 69.8%
Average Score by Procurement Fraud Scheme

- Bid Rigging: 81.6%
- Billing/Cost/Pricing Schemes: 43.0%
- Collusion: 70.7%
- Conflict of Interest: 47.5%
- Fraudulent Purchases: 53.9%
- Fraudulent Representation: 65.4%
Responses to Contract Management Phase Item

- Prefer not to answer, 1%
- I don't know, 11%
- I do not suspect fraud, 34%
- Procurement Planning, 20%
- Solicitation Planning, 5%
- Solicitation, 2%
- Source Selection, 13%
- Contract Administration, 13%
- Contract Closeout, 0%
Responses to Internal Control Component Item

- I prefer not to answer, 2%
- I don't know, 17%
- I do not suspect fraud, 38%
- Control Environment, 4%
- Control Activities, 12%
- Risk Assessment, 8%
- Information and Communication, 13%
- Monitoring, 5%
Responses to Procurement Fraud Scheme Item

- I prefer not to answer, 2%
- Bid Rigging, 1%
- Billing/Cost/Pricing, 6%
- Collusion, 10%
- Fraudulent Purchases, 2%
- Fraudulent Representation, 0%
- I don't know, 13%
- Conflict of Interest, 13%
- I do not suspect fraud, 53%
1. My department has clear lines of authority and responsibility.
   - Score: 4.15

2. My department is regularly reviewed by internal or external auditors.
   - Score: 3.94

- Strongly Agree
- Agree
- Neither Agree nor Disagree
- Disagree
- Strongly Disagree

I Prefer Not to Answer: 1
I Don’t Know: 9
3. I would report fraudulent or suspicious activity if I saw or suspected it.

4. I have a clear way of reporting fraudulent or suspicious activity within my organization outside of my immediate supervisor.
5. I know who to report to if I saw or suspected fraudulent activities.

4.31

I Don't Know: 3

6. I have adequate knowledge of contracting fraud schemes to perform my duties.

3.90

I Don't Know: 2
7. Instances of reported suspected fraudulent or suspicious activity have been adequately investigated by my organization.

I Don’t Know: 37

8. Employees in my organization who are found to have participated in fraudulent activities will be subject to appropriate consequences.

I Don’t Know: 23
9. My organization places sufficient emphasis on the importance of integrity, ethical conduct, fairness and honesty in their dealings with employees, vendors, and other organizations.

Rating: 4.34

I Don’t Know: 1
• Contracting officers may have a knowledge deficiency in the area of procurement internal controls.

• Contracting officers may be overly-optimistic in self-assessing their knowledge of procurement fraud schemes.

• Contracting officers’ limited knowledge of procurement fraud and their perception that their organization is not susceptible to fraud may reveal that the organization could in fact be vulnerable to some form of procurement fraud.

Juanita M. Rendon
Rene G. Rendon
Back Up Slides
Procurement Fraud Matrix

Fraud Scheme Category

- Collusion
- Conflict of Interests
- Bid Rigging
- Billing/Cost/Pricing Schemes
- Fraudulent Purchases
- Fraudulent Representation

Procurement Process Area

- Procurement Planning
- Solicitation Planning
- Solicitation
- Source Selection
- Contract Administration
- Contract Closeout

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