Course 3700: Combating Corruption in Government Procurement, Welfare and Tax Programs (2 days)

Course introduction

This two-day course provides an in-depth analysis of fraud and abuse in public sector procurement, entitlement and tax programs. Because these programs account for the majority of budgeted government expenditures and revenue, their effective administration is critical to government meeting its own objectives and the needs of constituents. This intermediate course also serves as a supplement to our Course 3600: Detecting and Investigating Public Sector Accounting Frauds (3-day course), which provides a comprehensive overview of public sector asset misappropriation and financial statement fraud.

This program provides delegates with detailed information concerning risk analysis for procurement, P-card, and entitlement programs (P&E programs); the control framework as well as common P&E controls covering systems, information, processes and personnel; assessments of existing P&E controls and evaluations of enhanced preventive controls, including controls implemented or being considered by governments or agencies represented by attending delegates; review of forensic software products such as Excel, Access and ActiveData, and demonstrations of how these and other commercial or free products can be used to identify suspicious transactions or unlikely relationships; data mining and computer forensic techniques for automated and transactional fraud detection; and use of ratios, other analytics, and mathematical models such as Benford's Law to detect suspicious or fraudulent data sets. Issues specific to the use of, and controls for, electronic purchasing and electronic benefit cards (P-cards and EBT cards) also will be examined, including controls related to opening and closing P-card and EBT card accounts.

Tax program fraud and abuse necessarily focuses on underreporting of income and overstated deductions and credits. The course also will consider stolen identity tax frauds committed using legitimate personal identifying numbers, a growing source of revenue losses for national, regional, provincial, cantonal, and state governments. In addition, the course will focus on detection and investigation of specific types of business tax fraud, including VAT, transfer pricing and cross-border structuring frauds (South Africa and the E.U.); council tax exemptions and discount frauds (U.K.); consumption tax fraud (Japan); sales tax and payroll tax frauds (Operation Zenith in the U.S.); underreporting of property rental income (Hong Kong); intra-group transactions, interest deductions, and tax arbitrage (Netherlands); and the “double Irish” tax structure used by large multinational corporations to lower corporate taxes. Analytics and controls used to combat tax fraud will be discussed as well, including new and existing techniques such as transaction diagramming tools; matching employer and employee reported compensation amounts; matching lease data from property stamping systems to rental income reported by property owners; matching return data for payers of commissions and rebates to reported income of recipients; using third-party reporting data from payment aggregators to identify business income underreporting; and using automated...
information sharing and databases such as OSIRIS (which covers over 70,000 companies worldwide) to increase collaborative and independent information sourcing that can identify transactions, structures and relationships that are associated with tax evasion.

The program answers questions such as:

- How do auditors analyze control and other risks in government procurement and entitlement programs?
- What controls have other governments found to be particularly effective in detecting fraud in P&E programs?
- What computer forensic tools should the government use to supplement preventive and detective controls? How are these tools applied for maximum benefit?
- What control issues are presented if the government uses P-cards and EBT cards to make government purchasing and entitlement programs more efficient?
- How can a government identify businesses that are likely to be engaged in tax evasion?
- What resources, techniques, and data analysis programs should a government use to identify specific types of tax fraud?

Topics

- Introduction
  - The role of procurement, entitlement and tax programs in government
  - Understanding the role of intent in P&E and tax fraud
  - The role of policies in employee knowledge and notice of what is fraud
  - Reporting mechanisms for misuse and abuse
  - Objectives in authorizing use of P-cards and EBT cards
  - Tax avoidance or minimization versus tax evasion and tax fraud

- Who commits P&E fraud
  - Government employees
  - Government supervisors
  - Benefit recipients
  - Suppliers, stores and other merchants
  - Gender, age and other characteristics of perpetrators

- Procurement frauds
  - Bid-rigging and collusion
  - Kickbacks and bribes
  - Ghost vendor frauds
Delivering substandard products or services, or non-delivery of products or services

Mischarging costs to contracts

Change orders and claim disputes

Risk assessments for procurement frauds

- Researching contractors and suppliers, including database resources
- Brainstorming and fraud risk identification
- Questionnaires and review of contractor controls
- Significant procurement accounts, transactions, and processes
- Fraud checklists
- Management and supplier inquiries
- Assessing program controls
- Documenting the fraud risk assessment and proposed responses

Issues associated with P-cards and EBT cards

- P-cards
- Travel cards
- Government credit cards
- Electronic benefit cards

Types of P&E card fraud and how these frauds are committed

- Eligibility and application fraud
- Issuing P-cards with high or non-existent purchase limits
- Issuing P-cards and EBT cards without merchant classification codes
- Issuing P-cards and EBT cards with ATM access or cash rights
- Cash purchases of EBT cards by third parties and merchants
- Multi-card issuances, multi-jurisdiction issuances, replacement card issuances, and identity fraud
- Opening fraudulent benefit files and failing to close benefit cases

Red flags for P&E fraud

- Delays in production of receipts or documents
- Delays in production or filing of expense reports or reconciliations
- Missing receipts and documents
- Inability to produce original receipts and documents
- Itemized receipts not obtained, dates on receipts differ from charge dates, or time of charge outside work hours
- Transactions or contracts at or near maximum limits
- Frequent claims of vendor errors or frequent credits
Employee or vendor probation
Monetary limits on purchase authorizations and/or P-cards
Bid rotation and pricing that exceeds estimates of contract value
Bid prices are high and/or consistent among different bidders
Bid patterning and withdrawals
Shifting costs from fixed price to cost plus contracts
Delivery location and timecard inconsistencies
Change order values equal high percentage of original contract costs
Lack of benefit eligibility and termination reviews
Supervisory review of purchases or benefits is lacking
Transactions with high risk vendors or for products not normally purchased
Unusual number of transactions or contracts
Missing or photocopied certifications
High rates of product failures and returns
Country of origin disclosure removed

Preventive and detective controls and techniques for investigating procurement and entitlement program frauds
Anti-fraud training and employee reminders about P-card use issues
EBT beneficiary acknowledgments of terms of use and issuance
Applicant screening
Whistleblower hotlines and rewards; encouraging tips by employees, beneficiaries, and vendors
Controls over form of receipt, submission, and business purpose disclosure
Reviews for nature, correctness, supporting documentation and signatures
Controls for purchase limits and merchant codes
EBT merchant controls, including computer forensics
EBT use patterns and analysis
Controls over opening and closing P-card and EBT card accounts
Continuous transaction monitoring
Reconciliation reviews at higher level for compliance with submission guidelines and amounts
Suspensions of P-card use or increased monitoring for employees on probation
Analysis of procurement costs using horizontal analysis, mathematical models, and database modeling
Exception reporting
Computer forensics, including Excel, Access and ActiveData
Other data mining techniques and analytics
Real-life procurement frauds, entitlement frauds and case studies
- Fraudulent use of food stamps and EBT cards in the U.S.
- Ugandan family defrauds U.K. with claims of 100 children and HIV infection
- The IT procurement system fraud at the Singapore Land Authority
- Bulgarian social subsidy frauds committed on the Netherlands
- “Heaven is high and the emperor is far away” – procurement frauds in China
- Case study: Supply chain concerns lead to an investigation

Detecting and investigating tax fraud
- How tax fraud is different from other types of government fraud and abuse
- Analytics, including parameters, stratification, matching, and exception reporting
- Government-developed proprietary or licensed commercial algorithms
- Whistleblower programs and rewards
- Using filters and third party information matching for fraudulent refund claims
- Suspicious transaction or activity reports
- Transaction diagramming and matching techniques
- Payment aggregators and matching
- OSIRIS and other databases
- Deterrence through criminal prosecution

Real-life tax frauds and case studies
- VAT, transfer pricing and cross-border structuring frauds (South Africa and E.U.)
- Council tax exemptions and discount frauds (U.K.)
- Consumption tax fraud (Japan)
- Sales tax and payroll tax frauds (U.S.)
- Underreporting of property rental income (Hong Kong)
- Intra-group transactions, interest deductions, and tax arbitrage (Netherlands)
- The “double Irish” tax structure used by Amazon, Google, and other large multinational corporations
- Case study: benaise Canton investigates suspected tax fraud

Teaching method
- Live group instruction in a workshop format
- Review of procurement, entitlement and tax fraud risk assessments, standards and guidance
- Extensive use of real-world procurement, entitlement and tax fraud schemes to focus attention on detection mechanisms
High level of attention to individual participants
Interactive participation is encouraged and will encompass discussion among participants as to effective anti-fraud measures used by colleagues
All participants receive a comprehensive binder containing copies of the presentation slides, handouts and other course materials

Prerequisites

A working understanding of government financial reporting and budgeting will be helpful. No advance preparation is required for this course.

Course benefits

- Understand how procurement and entitlement frauds are carried out by employees, management, vendors, benefit recipients, and others
- Become familiar with red flags which may indicate the presence of P&E fraud
- Review the different analytics, computer forensics and software tools most frequently used by governments and agencies to track procurements, entitlements, and taxes
- Learn the investigative techniques and skills utilized in the investigation of P-card, EBT card, procurement, and entitlement fraud
- Gain a better understanding of how your government or agency is susceptible to fraud in its principal programs, and what your government or agency should do in response

Who should attend?

- Chief governmental financial officers, senior level managers and government executives, and government accountants
- Inspectors general, government auditors, government investigative agents, and law enforcement representatives who investigate and/or prosecute procurement, entitlement, and tax fraud
- Chartered accountants, CGFMs, CPAs, Management Accountants, internal audit personnel, and finance professionals
- Public practitioners who provide accounting, audit, forensic and investigative services to governmental entities
- Risk managers
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In House
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