

Excess/Residual Inventory in a Proposal Audit

FRAUD INDICATORS

- **No reporting of residual/excess materials.**
- **Transfers from prior lot work orders to current or forecasted work orders.**
- **Transfers from cost-type to fixed-price work orders.**
- **Transfers from cost-type to commercial work orders.**
- **Mass transfers to scrap accounts.**
- **Mass transfers to an inventory write-off account.**
- **Transfers to or via a suspense or any type of holding account.**
- **Lengthy time periods between when material is received and charged to the contract.**
- **Poor internal controls over physical inventories.**
- **Disproportionate increase in the proposed scrap factor.**
- **Disproportionate increase in the inventory write-off account.**
- **Large quantity of or significant costs for "found" parts.**
- **Proposed material costs on follow-on contracts are based solely on historical costs without consideration of actual costs incurred on the original contract.**
- **Management non-disclosure or vague explanations of significant events that may have an effect on inventory levels to the Government.**