

Emergency Relief Supply Fraud

The Scenario

An audit team was asked to conduct an audit of emergency relief supply kits at an overseas location. Department of Defense and State Department officials requested the audit because of reports that very few of the kits were received by displaced persons in areas where deliveries were made. The emergency kits contained a variety of essential items such as first aid supplies, blankets, water, non-perishable food items, and propane. Each of the kits was valued at approximately \$500.00 U.S. dollars. According to inventory receipt/distribution reports, 20,000 of the kits were supposedly delivered to displaced individuals within the past two months.

The audit team visited the warehouse where the kits were stored and started to review inventory distribution reports. The team noticed the following trends:

- The same five Government contractors, and one Federal employee, repeatedly acknowledged receipt of the kits for distribution.
- One of the contractors often signed out 1,000 kits three or four times weekly. The requests were staggered between morning and afternoon warehouse shifts.
- The Federal employee would sporadically sign out 5-10 kits at a time. The corresponding inventory distribution reports contained notations that the kits were for "Personal Use Only."

The auditors conducted interviews with warehouse managers. Interviews disclosed that supervisory reviews of inventory receipt and distribution reports were six months behind. Warehouse managers stated that they did not have time to complete the required reviews because of increased demands for supplies, food, and medicine for the displaced families. Employees were often not able to report to work because of security concerns and managers worked 12 or 14 hour shifts to ensure distribution of essential supplies. One manager stated that internal controls, policies, and procedures were difficult to follow when demands for emergency supplies and medicine were increasing each day.

The audit team visited several sites to verify inventory receipt reports. During the site visits, team members and interpreters conducted interviews with displaced persons whose names and/or fingerprints appeared in the inventory receipt reports. Research disclosed that displaced persons could either sign their names to acknowledge receipt of the kits or, if they were illiterate, fingerprint impressions could be used to document receipt. When fingerprints were provided, a Federal employee, or contractor, would write the person's name on the official receipt record.

Interviews, analysis of receipt reports, and expert handwriting/fingerprint analysis disclosed the following information:

- 75% of the displaced persons interviewed stated that they had never received an emergency relief kit.
- Over half of the interviewees were not able to validate their receipt signatures because they were illiterate.
- Over 25% of the interviewee's fingerprints and signatures did not match any of the fingerprints on the emergency supply receipt log.
- Identical fingerprints and signatures were used to acknowledge receipt of the kits at two interview locations. Expert analysis of the fingerprints and signatures disclosed that they matched three of the contractors responsible for delivering the kits to the distribution sites.
- Several interviewees stated that blankets, water, and propane purchased on the local black market were exactly the same as the items contained in the kits. Interviewees stated that the items were often sold at prices equal to one week's salary, depending on the scarcity of the item.

General Comments / Lessons Learned. Emergency relief kits and medical supplies are vulnerable to fraud and theft in contingency environments. Internal controls are often overridden to accommodate demands for essential supplies and medicines. As illustrated in this scenario, fraudsters have successfully developed elaborate schemes to steal supplies and offer them for resale on local black markets. In addition to first aid supplies, water and propane, generators are highly sought after in contingency environments. Auditors should be alert to the increased likelihood of theft of essential supplies and medicines in environments where these, and similar items, are scarce.

FRAUD INDICATORS

- **Reports that essential emergency and/or medical supplies are not received by intended recipients; despite inventory receipt/distribution reports indicating that supplies were delivered.**
- **The same individuals repeatedly acknowledge receipt of inventory items that are scarce, essential for survival, or easily sold on the black market at inflated prices.**
- **Inventory distributions of essential emergency and/or medical supplies are staggered (i.e. different times of the day, different warehouse shifts) to avoid detection.**
- **Pattern of repeated receipt of large quantities of emergency or medical supplies by the same individual(s). In some cases, inventory records may indicate that the items are intended for "Personal Use Only".**
- **Internal controls, policies, and procedures are not followed because of increased demands for emergency and/or medical supplies.**
- **Signatures acknowledging receipt of emergency supplies in areas with high illiteracy rates.**
- **Very few signatures or fingerprints can be traced to individuals residing in locations receiving emergency supplies.**
- **Identical signatures and/or fingerprints repeatedly used to acknowledge receipt of emergency supplies.**
- **Reports that emergency items are sold on the local black market at highly inflated prices.**