
Fraudulent Invoices

The Scenario

An auditor, working abroad, was reviewing information on a cost plus fixed fee construction contract for a Department of Defense agency. The audit was requested by the agency because the contractor, ABC Company, was paid 25 million dollars of a 30 million dollar contract for a construction project that was never started. Agency officials told the auditor that the project was never started because of ongoing land disputes with the host country.

The auditor's analysis of payments to ABC Company disclosed that that the contractor submitted invoices and classified their work as services, a classification that allowed the company to bypass agency payment approvals. During a review of payment files, construction site visits, and interviews with company officials and the project Contracting Officer (CO), the auditor observed the following:

- The contractor submitted large invoices for payments for unspecified services from consultants and submitted invoices for subcontractor fees totaling millions of dollars without supporting documentation.
- The auditor's review of contractor invoices did not disclose any invoices for building materials.
- ABC Company billed \$30,000 for Direct Travel costs; however, the company provided supporting documentation for only \$11,000.
- One subcontractor submitted an itemized invoice for \$6 million dollars. The auditor's review of the invoice disclosed excessive charges for office trailers including a single charge for sixteen trailers totaling over \$500,000.
- A subcontractor's charges for equipment did not match with ABC Company's Daily Reports on the types of equipment available for use at the construction site.
- Review of invoices one through ten showed that the contractor billed forty percent for overhead on labor and five percent for General and Administration costs. However, on the next four invoices, ABC Company billed fourteen percent for overhead on labor and seven percent for General and Administrative costs. There was no evidence in the contract files that these rates were renegotiated.
- ABC Company employees were recording between 40 to 80 hours a week for work on the project; however, the auditor's site visit to the construction location confirmed that there was no progress made on the construction project.
- There was no evidence of Department of Defense oversight on the number of contractor hours billed. For example, the auditor noted that contractor employees

did not sign their timesheets and there was no easily identifiable way to determine if the employee hours charged were supporting the project.

- ABC Company was operating at the project location without any government officials overseeing the project. Interviewees disclosed that the CO and/or their Technical Representative had never visited the construction site.

The project CO stated that the agency was challenging the material costs submitted by the contractor for payment. However, the auditor informed the CO that they had not located any charges for building materials during the audit. The CO admitted that they had not closely monitored the project because they were simultaneously performing oversight of fifteen other construction contracts. During the final audit briefing, the CO agreed with the auditor's suspicion that ABC Company submitted fraudulent invoices for a project that was never really started.

General Comments / Lessons Learned. Shortages in quality assurance and surveillance staffing is a major challenge to the Department of Defense. The increasing level of contracting along with urgencies of the war efforts and support for national disaster recover efforts has spread thin the available corps of quality assurance and surveillance staff. As a result, Department of Defense Inspector General auditors have found a pattern of problems in this area. Unfortunately, many contractors and subcontractors have successfully developed schemes to defraud the government. As illustrated in this scenario, some of the schemes may not be sophisticated, and can be easily detected by auditors and contracting personnel if they are alert to fraud indicators when conducting their work.

FRAUD INDICATORS

- **Invoices with large dollar amounts for unspecified services from consultants.**
- **Invoices do not have adequate supporting documentation or supporting documentation is incomplete.**
- **Invoices for building materials are absent from construction project files.**
- **Invoice charges are excessive.**
- **Equipment charges are not consistent with contractor Daily Reports of equipment on hand.**
- **Contractor charges for fixed costs such as Labor and General and Administrative fluctuate, however, contract terms were not renegotiated.**
- **The contractor's staff is being paid for work on a project without making any significant progress.**
- **Lack of evidence of Department of Defense oversight and review of contractor timesheets.**
- **Employee timesheets are unclear making it is difficult to determine if the employee hours charged support a project.**
- **Contractor is operating at the construction site independently, without any government oversight, such as periodic visits by the CO and/or Technical Representative.**
- **CO is not familiar with significant details pertaining to the project.**
- **CO or Technical Representative's work responsibilities are excessive, therefore, they are not able to adequately oversee contractor activities.**