
Time Overcharging

The Scenario

Information provided by a whistleblower was crucial in determining whether a contractor fraudulently overcharged an agency for time/labor hours. The whistleblower alleged that the contractor, who was hired for construction services, made unauthorized alterations to timecards and other source records before submitting invoices for payment and charged the agency for employees who did not work on the project.

As part of the investigation, the auditors assigned to review time/labor records knew that in order to substantiate the whistleblower's claims, they would first have to be cognizant of any red flags, which would be the key to detecting the alleged fraud. The red flags in this type of situation included the following:

- Labor charges associated with the contract were inconsistent with the contract's progress,
- Photocopies of timecards were submitted for review,
- Timecards filled out by supervisors, not the employee, and
- Requested documents received only after a delay (the contractor was constantly hesitant to provide the documents).

Important procedures the auditors completed included reviewing timecards and other source records and interviewing the contractor and employees. When the auditors reviewed the documentation, they found that the numbers which represented employees' hours were either written over or crossed out and replaced with a greater number. The auditors also determined that the labor charges were inconsistent with the contract's progress.

When asked about the alterations, the contractor could not explain why the timecards had been edited. The contractor admitted that employee's timecards were altered without their knowledge and the work hours of other employees were reclassified to make it appear as if they worked exclusively on the construction project when they did not. It was concluded that the contractor overcharged the agency \$150,000 in labor hours.

The contractor was able to overcharge the agency because the agency failed to regularly review the timecards and other source records; the contract did not allow for the review of this valuable documentation.

All contracts should allow for reviews of the contractor's books of accounts. Reviews should be conducted periodically, and little or no warning of the review should be given to the contractor. Routine reviews are an excellent measure to deter overcharging and sends the message that the agency is always monitoring the contractor to ensure that it is complying with proper business standards and contractual agreements.

General Comments / Lessons Learned: In a time overcharging scheme, a contractor misrepresents the distribution of employee labor on jobs in order to charge for more work hours to increase profit. The contractor submits invoices for work that was not performed or submits invoices for a greater amount of work than what was actually performed. Routine reviews of time records send the contractor the message that the entity is always subject to monitoring to ensure that it is complying with ethics and business standards and contractual agreements.

FRAUD INDICATORS

- Requested documentation is received after a delay.
- Labor charges associated to the contracts are inconsistent with contract's progress.
- Photocopies of timecards are submitted for review in an effort to make it difficult to detect alterations.
- Unexplained alterations made to timecards.