ACFE™
Association of Certified Fraud Examiners
Oman Chapter

Preventing and Detecting Procurement Fraud

Jan 25, 2021 | 8 PM - 9 PM (Oman Time)

Sponsored by College of Banking and Financial Studies (CBFS)

FREE WEBINAR

1 CPE

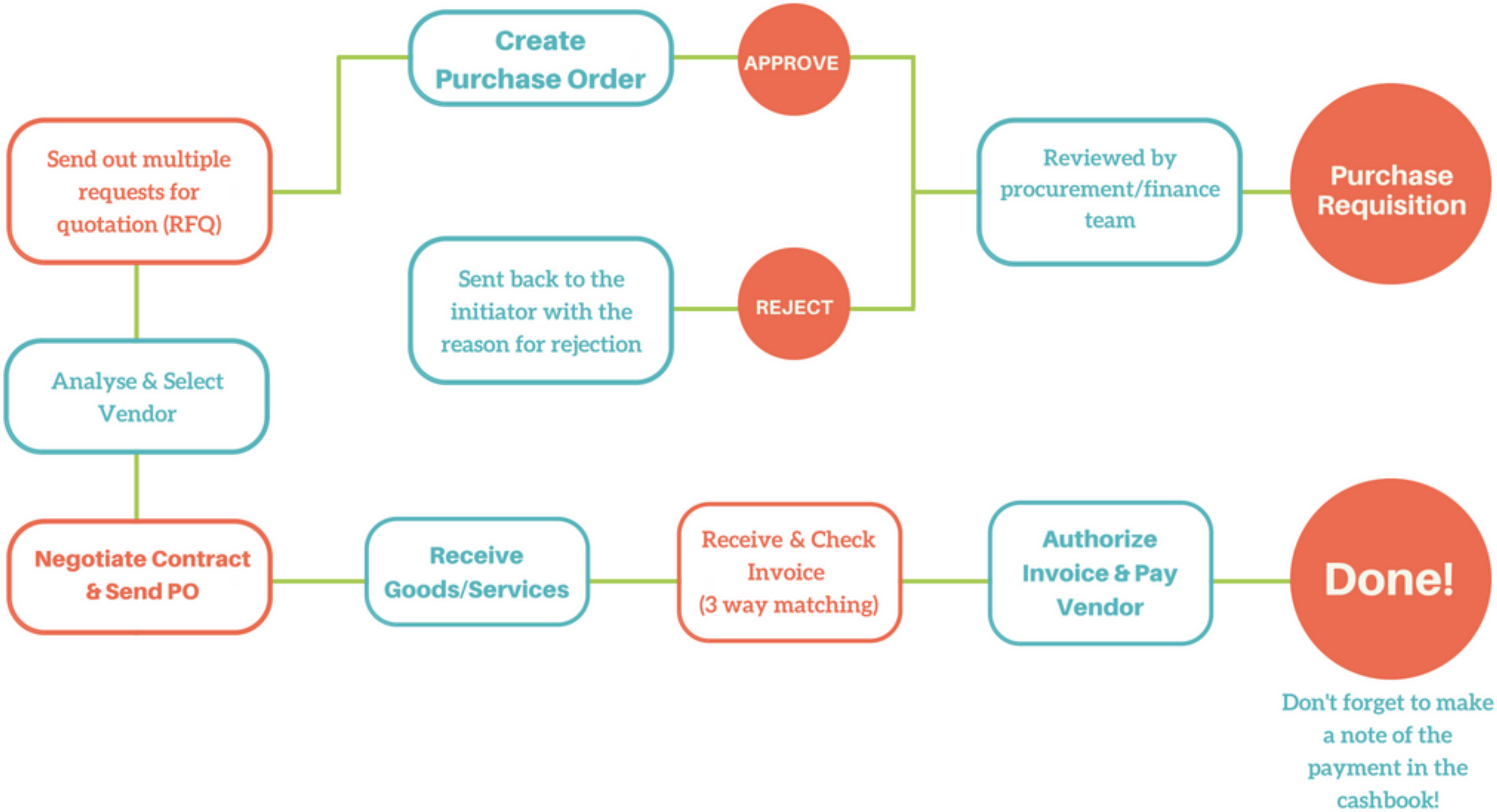
Speaker:

Iyad Mourtada

American Greed: Highlight Clip - "Cutting Corners on U.S. Military Body Armor"

3:15 PM ET Tue, 28 July 2015

How does your organization purchase goods and services?



Procurement Process Flow

Requisition/Purchase Order

Qualified vs Approved Venders

Establish Approved Vender List

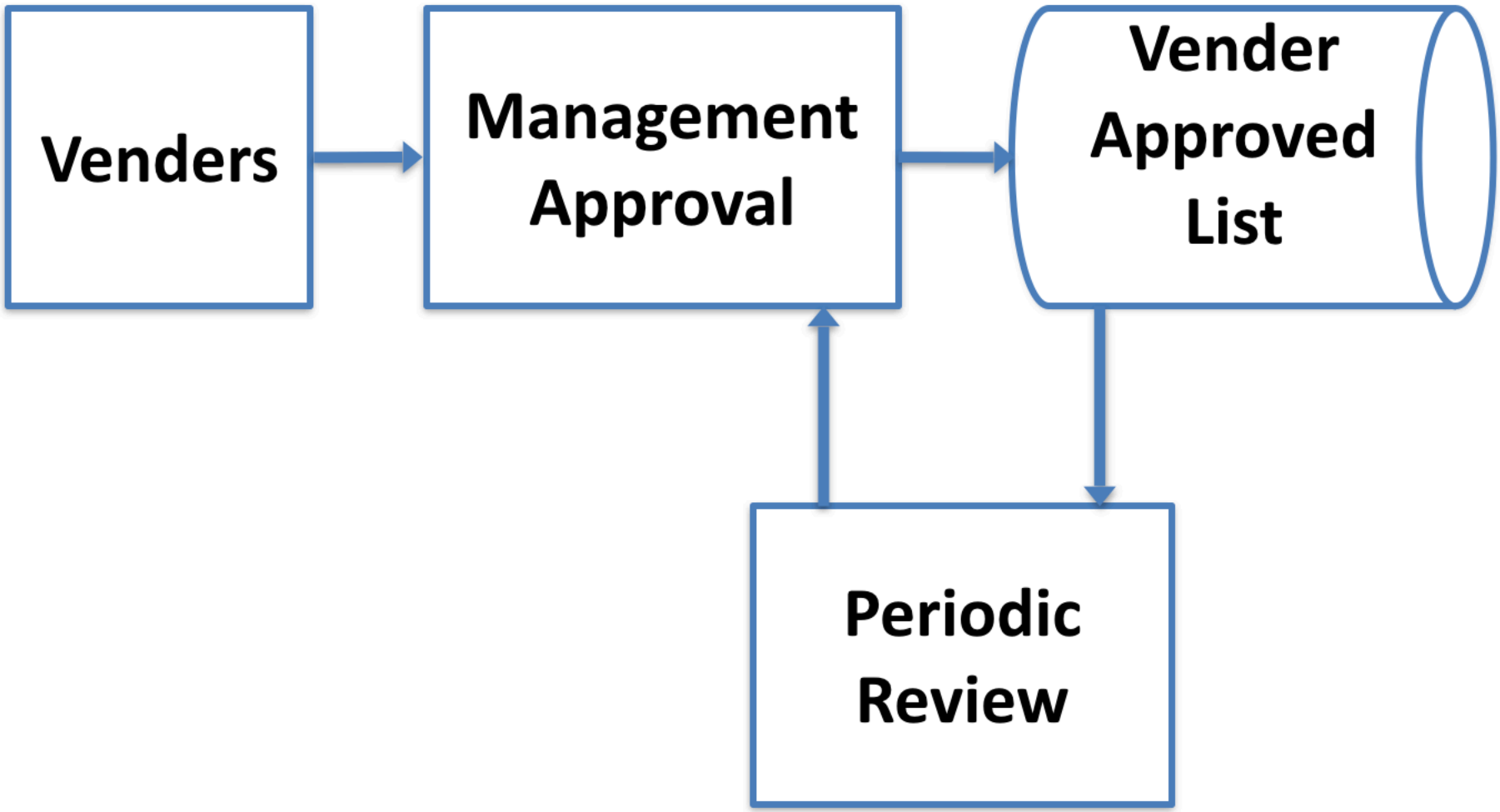


FIG. 32 **What are the most common occupational fraud schemes in high-risk departments?**

DEPARTMENT	Cases	Billing	Cash larceny	Cash on hand	Check and payment tampering	Corruption	Expense reimbursements	Financial statement fraud	Noncash	Payroll	Register disbursements	Skimming
Operations	288	15%	5%	10%	5%	44%	12%	7%	15%	8%	3%	9%
Accounting	277	32%	14%	12%	27%	24%	18%	15%	11%	21%	5%	19%
Executive/upper management	234	26%	11%	12%	11%	62%	26%	30%	18%	12%	3%	10%
Sales	225	10%	6%	10%	5%	39%	14%	8%	21%	2%	4%	10%
Customer service	175	5%	8%	11%	8%	33%	6%	1%	9%	2%	2%	17%
Administrative support	116	31%	8%	18%	12%	29%	14%	8%	12%	9%	3%	12%
Finance	101	20%	10%	12%	9%	35%	14%	14%	12%	9%	3%	8%
Purchasing	96	22%	4%	4%	2%	81%	7%	7%	18%	2%	0%	4%

LESS RISK MORE RISK

Understanding the Purchasing Process

Questions

- Name, Phone and Email of the Purchasing Manager

- Obtain the Purchasing Depart organization chat and know they report?
- Obtain a list of verified/approved venders and the top 5 in spending amount?
- Obtain the purchasing policy, procedures and manual and ethics policy?
- What is the process of approving venders and what are the vender information required? How is the organization soliciting for new vender?

- Are purchases done without PO or from non-approved venders? Under what circumstances ?

- Who reviews, approves and signs the contracts with the venders?

- When is the bidding process required? Describe the bidding process?

- How the PO, Vender Information and contract details are documented in the system of the organization? Who got access and permission to the system?

- How are the venders categorized? By user department? By products and services purchased?

Auditing the Vender Approval Process

○ Select a random sample of vendors from the approved vender list and obtain documentation of approval for them.
○ Using Auditing Software filter the list of paid invoices to venders to see if the organization paid to unapproved vender.
○ Examine any overrides that can be made to pay vender who is not on the approved vendor list.

Auditing the Requisition Process

- ✓ Established Requisition Process and Policy
- ✓ Documentation of the requisition process
- ✓ Effective internal control over the requisition process
- ✓ Approval of the requisition forms.
- ✓Improving the requisition process

Questions

- Describe the requisition process? Obtain the requisition policy and requisition from? Who initiate the requisition?

_____

- Where is the greatest delay found in the Requisition process?

_____

- Who approves the requisition from?

_____

- What are internal controls to prevent errors in the requisition process?

_____

- What are internal controls to detect errors in the requisition process?

_____

- What are internal controls to correct errors in the requisition process?

_____

Who got access to the requisition system?

_____

Auditing Plan

○ Select a random sample of the requisitions and ensures that they are processed in the right way and they are approved.
○ Select a random sample of the requisitions and match them with PO.
○ Review the requisition system and ensure that only authorize users have access to it.
○ Test the internal control over the requisition process.

Auditing the RFI/RFP/RFQ

- ✓ Clear, correct and defined specifications by the user
- ✓ Established policy and process for covering the RFI/RFP/RFQ
- ✓ Enough selection of venders to choice from
- ✓ All venders are giving the same information in the same way
- ✓ Secure access over the bidding documents and bidding system.

Questions

- Who is involved in determining the specification in the RFI/RFP/RFQ process?

_____

- To what capacity the purchase department & legal department are involved?

_____

- Where do you file the open RFP/RFQs? Who has access to these files?

_____

- What are internal controls that prevent and detect conflict of interest?

_____

Auditing Plan

- Select a random sample of RFI/RFP/RFQ from the last 12 months from completed project and current projects.
- Determine the role of user, purchasing & legal department in the creation, review and approval over the specifications.
- Review the process and average time of the process to test the effectiveness of the process and recommend improvement.
- Investigate projects where only two or few venders applied.
- Obtain a documentation showing how the organization obtained the RFI/RFP/RFQ and how they kept them secure.
- Review the conflict of interest policy and ensure that all the staff involved signed it annually.
- Ensure that the organization gave only permission to the authorized staff to access only the information that they need

Auditing the Bidding & Vender Selection Process

✓ Appropriate and controlled bid solicitation process
✓ Only valid bids will be accepted from qualified or approved venders
✓ Sealed bid should be submitted and kept secured until they are opened all at the same time.
✓ Biding system should be secured and only authorized staff should have access
✓ Effective vender selection process based on the specification and price.

Questions

- Who is involved in the bid soliciting process and vender selection process (Legal, purchasing, buyer, internal auditor)?

_____

- Describe the bid solicitation process and vender approval process?

_____

- How the organization is documenting the bids?

_____

- What are internal control over the bidding process and who have access and permission to bidding system?

Auditing Plan

○ Select a random sample of approved contracts since the last audit and review the following:
- Vender meets the contract criteria and selection is reasonable based on the venders, specifications, offering and price.
- Review the contracts to see if there are any unusual terms.
- Review the other bids and the documentations of bidding process and vender selection process to ensure that all venders got equal treatment.

○ Test the internal controls over the bidding and vender selection process to ensure that all preventive and detective controls are effective.

○ Interview the purchasing department and discuss with them how they can improve the bidding and vender selection process.

Auditing the Terms and Conditions

- ✓ All needed terms are included
- ✓ Any unusual terms or complex terms are approved by the legal department
- ✓ Terms are clear and expressly written
- ✓ Right to audit terms is included

Questions

- Who decides the terms and conditions of the contract? (Buyer, legal department, purchasing department).

_____

- What are the intellectual property rights, right to audit, insurance and payment terms?

_____

- How are breaches of contract handled?

_____

Auditing Plan

- Select a sample of signed contracts since the last audit.
- Review the following in the contracts:
  - Documented review by the legal department
  - Authority level of signatories
  - Date of contract vs. date work commenced
  - "Right to Audit" clauses
  - "Intellectual Property" clauses
  - "Nondisclosure of Proprietary Information" clauses
  - Associated Certificate of Insurance on file
  - Required "Nondiscrimination" clauses are included

Note any contracts with unusual terms and conditions, such as Countertrade provisions, noncash exchanges (in full or part), "free goods," trial periods, trade-ins, special discounts, and other similar provisions. Investigate how values are set and how they are booked in the General Ledger.

Auditing the Suppliers Monitoring Process

- ✓ Systematic Monitoring and Evaluation
- ✓ Criteria used for evaluation
- ✓ Documentation of the evaluation
- ✓ Reporting of the evaluation
- ✓ Action to be taken by the supplier or the organization
- ✓ Rewarding the good performance
- ✓ Improving the performance

Questions

- Who is responsible for evaluating the services or goods of the supplier?

_____

- How is this monitoring done? Where is it documented?

_____

- To whom are the monitoring results reported?

_____

- What are the criteria used to evaluate the suppliers?

_____

- How results are shared with suppliers?

_____

- What kind of corrective action is required from the suppliers?

_____

- What kind of reward system is in place to motivate the supplier to meet the needs of the organization?

_____

- How does the organization help the supplier in improving their offering?

_____

Auditing Plan

○ Select a random sample of suppliers and ensure that all the ✓ are in place

○ Review the organization evaluation system and ensure that only authorize users have access to it.

Auditing the Billing Process

✓ Price, quality, and quantity in the Invoices match the contract and purchasing order
✓ Payment terms should be defined and followed
✓ Only approved payment should be issued

Questions

- What are the pricing method listed in the contact?

_____

- What are the payment terms listed in the contract?

_____

- What is the process for approving the incoming invoices?

_____

Auditing Plan

- Select a random incoming invoices from venders.
- Review them to see if the organization have documentation to proof that the price, quality, quantities match the contacts and purchase orders. (Review who approved the payment).

Contract Pricing Method:

- Fixed Price (Lump-sum) Contracts
- Cost Reimbursement (Cost-plus) Contracts
- Unit Price Contracts
- Joint Venture Contracts
- Additional Contracts Types