


FRAUD
*Three Cases, Two Lessons
& One Critical Action*

● The Conference That Counts
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1

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Precision & Clarity

- Thinking
- Planning
- Actions
- Solutions




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Our Challenge


**War Stories
versus
Action Lessons**



3

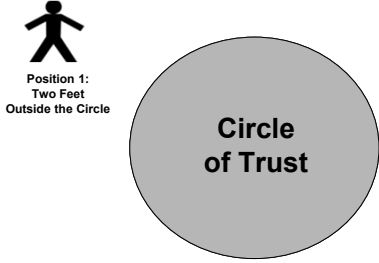
QUESTION

Who should have caught these frauds?




4

Where is the risk?



Position 1:
Two Feet
Outside the Circle

Circle of Trust



5


Position 1 Examples

Known Outsiders

1. Customers
2. Borrowers
3. Investors
4. Taxpayers / students / grant recipients

Unknown Outsiders

1. Hackers
2. Organized Crime
3. Everyday Thieves
4. Nation States




6

The Fruit Tree Caper

VENDOR #616458

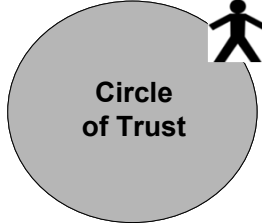
QUANTITY	DESCRIPTION	UNIT PRICE	AMOUNT
1 LOT	FRUIT TREES		19,990.00

- ✓ Valid business license and TIN
- ✓ Sent one low value item →
- ✓ UPS receipt – False security



7

Where is the risk?



Circle of Trust

Position 2:
One Foot Inside,
One Outside

8

Position 2 Examples

- Suppliers / Vendors
 1. Customers
 2. Borrowers
 3. Taxpayers
- Contractors
 1. Services, including consultants in IT, marketing, design, planning, other soft deliverables
 2. Construction & Property Management
- Business Partners

9


● **Contractors**



10

Project Background


1. **Renovation of two existing client facilities**
2. **Collusion between client executive and long-term trusted construction company executive (25-year relationship)**
- 3. **Sole source contract award (no bid)**
4. **Not managed by construction department**
5. **Overcharges of over \$3 million on contract value of \$14.5 million (21%)**



11

Case Details

1. **Overbilling through real and fictitious sub-contractors**
 - a) **Internal project budget**
 - b) **Contract value**
 - c) **Schedule of values**
2. **\$250,000 kickback paid to owner executive**
3. **Fabricated Change Orders**
4. **Architect knowingly approved inflated costs**
5. **Insurance claim for activities of owner company executive**



12

"Job Cost Report"

COST CODE	REF #	JR	DATE	DOCUMENT	DESCRIPTION	LABOR	MATERIAL	SUBCON	EQUIP	OTHER	PAYEE TOTAL
Cost Code 1015: EIFS/Base Bldg Exterior Insulation Finishing System											
1015 894-0001	AP		8/27/07	Invl SC01-1015 6038	ABC Construction		125,000.00				125,000.00
1015 280-0001	AP		9/18/07	Invl ES333 6038	Diamond Stone			46,163.00			46,163.00
1015 894-0002	AP		9/26/07	Invl SC02-1015 6038	ABC Construction		25,000.00				25,000.00
1015 851-0001	AP		9/30/07	Invl 302112 6038	Venus Contractors Inc.			80,956.54			80,956.54
1015 822-0001	AP		10/5/07	Invl ES335 6038	Diamond Stone			27,555.00			27,555.00
1015 868-0025	AP		12/26/07	Invl SC-01 6038	Diamond Stone			1,545.00			1,545.00
1015 940-0001	AP		2/26/08	Invl SC03-1015 6038	ABC Construction		7,100.00				7,100.00
1015 851-0002	AP		3/25/08	Invl ES362 6038	Diamond Stone			879.50			879.50
						0.00	0.00	187,100.00	0.00	157,099.04	314,199.04
Cost Code 1028: Structural / Seismic Work											
1028 819-0004	AP		7/24/07	Invl SC01-1028 6038	ABC Construction		70,000.00				70,000.00
1028 165-0001	AP		9/1/07	Invl 07 67811 6038	Kolder Metal Fabricators			62,000.00			62,000.00
1028 884-0008	AP		9/26/07	Invl SC02-1028 6038	ABC Construction		170,300.00				170,300.00
1028 488-0005	AP		10/6/07	Invl 3277 6038	Structural Imaging LLC			475.00			475.00
1028 257-0004	AP		2/19/08	Invl SC-073 6038	ABC Construction		-7,000.00				-7,000.00
							233,300.00		62,475.00		295,775.00

13

Sort by Cost Code

COST CODE	REF #	JR	DATE	DOCUMENT	DESCRIPTION	LABOR	MATERIAL	SUBCON	EQUIP	OTHER	PAYEE TOTAL
Cost Code 1015: EIFS/Base Bldg Exterior Insulation Finishing System											
1015 894-0001	AP		8/27/07	Invl SC01-1015 6038	ABC Construction		125,000.00				125,000.00
1015 280-0001	AP		9/18/07	Invl ES333 6038	Diamond Stone			46,163.00			46,163.00
1015 894-0002	AP		9/26/07	Invl SC02-1015 6038	ABC Construction		25,000.00				25,000.00
1015 851-0001	AP		9/30/07	Invl 302112 6038	Venus Contractors Inc.			80,956.54			80,956.54
1015 822-0001	AP		10/5/07	Invl ES335 6038	Diamond Stone			27,555.00			27,555.00
1015 868-0025	AP		12/26/07	Invl SC-01 6038	Diamond Stone			1,545.00			1,545.00
1015 940-0001	AP		2/26/08	Invl SC-03-1015 6038	ABC Construction		7,100.00				7,100.00
1015 851-0002	AP		3/25/08	Invl ES362 6038	Diamond Stone			879.50			879.50
						0.00	0.00	187,100.00	0.00	157,099.04	314,199.04
Cost Code 1028: Structural / Seismic Work											
1028 819-0004	AP		7/24/07	Invl SC01-1028 6038	ABC Construction		70,000.00				70,000.00
1028 165-0001	AP		9/1/07	Invl 07 67811 6038	Kolder Metal Fabricators			62,000.00			62,000.00
1028 884-0008	AP		9/26/07	Invl SC02-1028 6038	ABC Construction		170,300.00				170,300.00
1028 488-0005	AP		10/6/07	Invl 3277 6038	Structural Imaging LLC			475.00			475.00
1028 257-0004	AP		2/19/08	Invl SC-073 6038	ABC Construction		-7,000.00				-7,000.00
							233,300.00		62,475.00		295,775.00

14

Sort by Subcontractor

COST CODE	REF #	JR	DATE	DOCUMENT	DESCRIPTION	LABOR	MATERIAL	SUBCON	EQUIP	OTHER	PAYEE TOTAL
Cost Code 1015: EIFS/Base Bldg Exterior Insulation Finishing System											
1015 894-0001	AP		8/27/07	Invl SC01-1015 6038	ABC Construction		125,000.00				125,000.00
1015 280-0001	AP		9/18/07	Invl ES333 6038	Diamond Stone			46,163.00			46,163.00
1015 894-0002	AP		9/26/07	Invl SC02-1015 6038	ABC Construction		25,000.00				25,000.00
1015 851-0001	AP		9/30/07	Invl 302112 6038	Venus Contractors Inc.			80,956.54			80,956.54
1015 822-0001	AP		10/5/07	Invl ES335 6038	Diamond Stone			27,555.00			27,555.00
1015 868-0025	AP		12/26/07	Invl SC-01 6038	Diamond Stone			1,545.00			1,545.00
1015 940-0001	AP		2/26/08	Invl SC03-1015 6038	ABC Construction		7,100.00				7,100.00
1015 851-0002	AP		3/25/08	Invl ES362 6038	Diamond Stone			879.50			879.50
						0.00	0.00	187,100.00	0.00	157,099.04	314,199.04
Cost Code 1028: Structural / Seismic Work											
1028 819-0004	AP		7/24/07	Invl SC01-1028 6038	ABC Construction		70,000.00				70,000.00
1028 165-0001	AP		9/1/07	Invl 07 67811 6038	Kolder Metal Fabricators			62,000.00			62,000.00
1028 884-0008	AP		9/26/07	Invl SC02-1028 6038	ABC Construction		170,300.00				170,300.00
1028 488-0005	AP		10/6/07	Invl 3277 6038	Structural Imaging LLC			475.00			475.00
1028 257-0004	AP		2/19/08	Invl SC-073 6038	ABC Construction		-7,000.00				-7,000.00
							233,300.00		62,475.00		295,775.00

15

Duplicate Charges Surface

COST CODE	REF #	JR	DATE	DOCUMENT	DESCRIPTION	LABOR	MATERIAL	SUBCON	EQUIP	OTHER	PAYEE TOTAL
Cost Code 1015: EIFS/Exter. Bldg Exterior Insulation Finishing System)											
1015 894-0001	AP		8/27/07	Invl SC01-1015 6038	ABC Construction		125,000.00				125,000.00
1015 260-0001	AP		9/18/07	Invl ES33 6038	Diamond Stone				46,163.00		46,163.00
1015 884-0002	AP		9/26/07	Invl SC03-1015 6038	ABC Construction		25,000.00				25,000.00
1015 051-0001	AP		9/30/07	Invl 302112 6038	Venus Contractors Inc.				60,956.54		60,956.54
1015 622-0001	AP		10/6/07	Invl ES35 6038	Diamond Stone				27,555.00		27,555.00
1015 868-0026	AP		12/26/07	Invl SC 01 6038	Diamond Stone			7,100.00		1,545.00	1,545.00
1015 940-0001	AP		2/28/08	Invl SC03-1015 6038	ABC Construction						7,500.00
1015 851-0002	AP		3/25/08	Invl ES32 6038	Diamond Stone					879.50	879.50
						0.00	0.00	157,100.00	0.00	157,095.04	314,195.04
Cost Code 1026: Structural / Seismic Work											
1026 819-0004	AP		7/24/07	Invl SC01-1026 6038	ABC Construction		70,000.00				70,000.00
1026 165-0001	AP		9/1/07	Invl 07 67811 6038	Kolder Metal Fabricators				62,000.00		62,000.00
1026 884-0008	AP		9/26/07	Invl SC02-1026 6038	ABC Construction		170,300.00				170,300.00
1026 488-0005	AP		10/6/07	Invl 3277 6038	Structural Imaging LLC					475.00	475.00
1026 257-0004	AP		2/19/08	Invl SC 673 6038	ABC Construction		7,000.00				7,000.00
						0.00	233,300.00			62,475.00	295,775.00

16

Summary of Losses

Billed and Paid Costs	Actual Costs	Total Overcharge
A - \$10,110,000	\$8,660,000	\$1,450,000
B - \$4,410,000	\$2,825,000	\$1,585,000
Total - \$14,520,000	\$11,485,000	\$3,035,000


Plus:
 30% Penalty \$910,000
 Audit and legal costs \$250,000

17

Inflated Labor Hours

18

Inflated
Labor
Hours



Bovis
Lend
Lease
8 Plus 2

19

Inflated Labor & Burden Rates

20

Inflated
Labor
Rates

Water Buildup	Rate	M/Hour/ft Level 4
BASE RATE (Including vacation)	\$	45.87
FRINGE BENEFITS	\$	14.99
ADMIN/PROV/OVERHEAD	0.00%	\$
SMALL TOOLS	4.00%	\$ 1.83
CONSUMABLES	4.00%	\$ 1.83
Total Fee	8.00%	\$ 3.67
PAYROLL TAXES (At Net Tax Rates)		
Social Security	7.65%	\$ 3.51
State Unemployment Insurance	6.50%	\$ 3.00
Federal Unemployment Compensation	0.80%	\$ 0.37
Total Taxes	15.00%	\$ 6.88
INSURANCE		
Workers Compensation - Rate	7.40%	\$ 3.40
General Liability & Misc. Insurances	7.21%	\$ 3.31
Total Insurance	14.60%	\$ 6.72
TOTAL STRAIGHT TIME BILLING RATE	\$	78.13
Time and 1/2 Premiums:		
Time and 1/2 Rate Rate	\$	22.04
General Liability Insurance	\$	3.44
Payroll Taxes	\$	26.58
TOTAL TIME AND 1/2 BILLING RATE	\$	104.51
Double Time Premiums:		
Double Time Rate Rate	\$	45.87
General Liability Insurance	\$	6.88
Payroll Taxes	\$	32.76
TOTAL DOUBLE TIME BILLING RATE	\$	121.51

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21

Change Orders




22

CONTRACT CHANGE ORDER AUTHORIZATION
VARIETY CONTRACTORS, INC.

General Contractor: Variety Contractors, Inc.		Change Order	
Address: [Redacted]		CO#: 1116	DATE: 1/26/XXXX
Project:	Project Address:	Project & Change Order #	Original Contract Amt.
[Redacted]	[Redacted]	1	\$ 1,475,000.00
		2	\$ 25,172.50
		3	\$ 6,722.50


To:	Description	QTY	UNIT PRICE	TOTAL
	1. Labor - [Redacted]	5	243.00	
	2. Materials - [Redacted]	5	1,076.25	
	3. [Redacted]	5	3,175.25	
	4. [Redacted]	5	336.00	
	5. [Redacted]	5	2,013.00	
TOTAL:				\$ 6,722.50

Terms and conditions of original contract apply to all Change Orders.



23

Non-Reimbursable Costs



24

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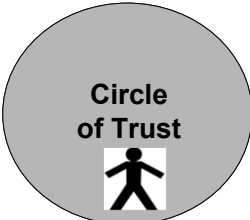
Falsification of Records



25


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Where is the risk?



Circle of Trust

Position 3:
Both Feet Inside




26

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Position 3 Examples

● Employees

1. Theft of:
 - Cash
 - Inventory
 - Equipment
 - Tools
 - Information
 - Time
2. Manipulation of Financial Results
3. Manipulation of Operating Results



27

Expense Reimbursement

28

Purchasing Cards



29



30

My Favorite
***Phantom
or Fake
Vendor***



31

The Shared Service Center

**Charity Adams
+2 = \$540,000**



32

Dixon, Illinois



33

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Manipulating Non-Financial Results




34

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Non-Financial Results

1. Regulatory compliance
2. Market conduct
3. Product safety
- 4. Environmental compliance
5. "Fitness for Use"
6. Customer satisfaction
7. Volume activity stats
8. KRI achievement




35

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QUESTION

Who should have caught these frauds?



36

LESSON 1

**The greatest threat
is from the inside**

37

LESSON 2

**Responsibility
without skills
is a major
control weakness**

38

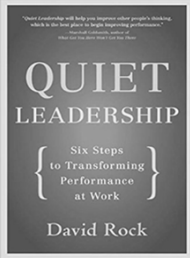
1 CRITICAL ACTION

**Every employee
must be recruited
into anti-fraud efforts**

39

SIMPLICITY
The
**Anti-Fraud
Moment**

40



High-Leverage Behaviors
A few simple but critical behaviors

41

- Four Daily Behaviors**
1. **Look for fraud indicators**
 2. **Ask “How do I know?”**
 3. **When in doubt, doubt**
 4. **Resolve or refer suspicions**

42




**LOOK
ASK
DOUBT
RESOLVE**



43

Quality = Right the First Time


- **It's Not
Extra Work.
It's Core Work.**



44

Alex Mendossian

- **Ordinary Things
Consistently Done
Can Produce
Extraordinary Results**



45
