INVOICE AND MANDATE FRAUD CONTROL MEASURES DOCUMENT

INTRODUCTION

Public Sector bodies can be vulnerable to invoicing and mandate fraud from both inside and outside their organisations or a risk of collusion between both.

This document has drawn on the experience of a number of organisations who have experienced this type of fraud and are familiar with the methods by which it is attempted to be committed by fraudsters.

To help prevent these types of fraud being committed in the public sector, this document can help to minimise the risk of an organisation suffering losses. It recommends control measures that can be implemented to prevent YOUR organisation being a victim and the harm it causes to the business and the public purse.

ACKNOWLEDGEMENT

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INSIDER INVOICE FRAUD

Insider invoicing/mandate fraud refers to cases in which an employee/other insider to the organisation can access an organisations assets and payments to commit fraud.

RISKS AND CONTROL MEASURES

1.1 RISK - Payment to dormant supplier(s).

CONTROL MEASURES:

1. Monitor pattern or spending with suppliers.
2. Conduct a regular review of suppliers to confirm they are still active and closure/suspension of supplier accounts when they are not.
3. Controlled procedures to remove suspension of supplier record including segregation of duties and authorisations.
4. Audit trail of supplier detail changes.
5. An appropriate level of oversight of actual spend against budget. Significant overspends should be escalated and followed up with budget holders to confirm that appropriate corrective action is taken in a timely manner.
6. Maintain an up to date list of authorisers.
7. Payments approved by authorised officers.

1.2 RISK - False creation of supplier(s).

CONTROL MEASURES:

1. Non-approved suppliers blocked centrally.
2. Controlled number of people able to create suppliers on the system.
3. Segregation of duties and authorisation applied to supplier creation process.
4. Independent verification of supplier details e.g. credit agency review
5. Audit trail of creation of suppliers.

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1.3 RISK - Change of address/bank details of supplier by employee.

CONTROL MEASURES:

1. Segregation of duties (needs more than one employee to complete and authorise)
2. Supporting evidence recorded and retained for review.
3. Audit trail of address/bank detail creation or changes.
4. Sample review of change of address/bank details.

1.4 RISK - Undisclosed relationships with Suppliers/Collusion.

CONTROL MEASURES

1. Proactive testing – employee v vendor address matching.
2. Clearly defined policies and guidelines.
3. Audit trail of purchasing decisions.
4. Segregation of duties
5. Promote whistleblowing policy and respond with covert or overt investigation

2 SUPPLIER

Supplier invoicing fraud includes any fraudulent act where steps were taken to deliberately mislead an organisation to cause a gain or a loss to another.

RISKS AND CONTROL MEASURES

2.1 RISK - Supplier submitting false or duplicate invoices.

CONTROL MEASURES:

1. Effective goods/services receipting and invoice matching process.
2. Checking process for duplicated invoice values from same supplier.
3. Checking process for duplicated invoice/order numbers from same supplier.

2.2 RISK - Suppliers submitting invoices for work contracted but not delivered.

CONTROL MEASURES:

1. Effective goods/services receipting and invoice matching process.
2. Segregation of duties (invoice handling separated from goods/services receipting).
3. All goods/services must be receipted before payment of invoice.
4. Clear directions of use of Government Procurement Cards (GPC).
5. Robust procedures to recover any overpayments.

2.3 RISK - Altered amounts.

CONTROL MEASURES:

1. Effective goods/services receipting and invoice matching process.
2. Segregation of duties (invoice handling separated from goods/services receipting).

2.4 RISK - Invoices for goods/services not delivered.

CONTROL MEASURES:

1. Purchase orders should be processed and approved by an authorised signatory in a timely manner in advance of ordering goods and services.
2. Supplier invoices should only be paid when there is a completed approval form and match to a valid purchase order.
3. Effective goods/services receipting and invoice matching process.
4. Segregation of duties (invoice handling separated from goods/services receipting.

2.5 RISK - Invoices for work not to contracted standard

CONTROL MEASURES:

1. Quality checking process implemented**.**
2. Monitoring of budget spend and follow up checks on over/under expenditure.
3. Sample of invoices checked against goods/services delivered.

3. MANDATE FRAUD

Mandate fraud can be described as 'change of bank account scams', 'payment diversion fraud' or 'supplier account takeover fraud'. It occurs when a fraudulent request to change a direct debit, standing order or bank transfer mandate is received by an organisation from someone purporting to be the supplier to benefit from payments to a different account. Details of suppliers can be obtained from different sources including corrupt staff, published contract information and on-line logs of supplier contracts.

RISKS AND CONTROL MEASURES

3.1 RISK - Request to change bank details fraudulently from external person(s).

CONTROL MEASURES:

1. Confirm request with Supplier using existing contact details not any contact information on the request form.
2. Send a bank account amendment form to the Supplier confirming the request to change details.
3. Check information on request form to existing records before any changes made.

3.2 RISK - Fraudulent requests to set up standing orders

CONTROL MEASURES:

1. Control account reconciliations should be performed on a monthly basis to confirm that the financial statements accurately reflect transactions, enabling any discrepancies to be identified and corrective action taken in a timely manner.
2. There should be a documented process in place to manage changes to the general ledger and compliance with this should be monitored.

4. ROGUE PUBLISHER FRAUD

Publisher fraud involves organisations being misled into erroneously paying for services such as advertising space in publications which is not required and may not be provided. This can be carried out in a number of ways:

- Invoices are sent to organisations for adverts in publications that do not exist.
- Organisations receive calls from rogue publishers claiming to be from genuine publications they have used before. If the organisation expresses an interest in placing an advert, the call is transferred to another operative who arranges for the advert to be placed but omits to mention the name of the publication. An invoice is then sent to the organisation and if this is queried, the rogue publisher will claim a verbal contract exists.
- Organisations are contacted offering free listings in a business directory. A staff member may be asked to confirm details of the organisation and return these on a form. In the small print it will state that by signing the form the organisation is committing to an order and agreeing to pay for on-going entries in the directory.
- Rogue publishers call organisations asking for details of two people that can authorise the placement of an advert in one of their publications. They then call one of these people and ask them to authorise an advert that has been booked by the other person.
- Organisations are contacted by telephone or letter and asked if they wish to place an advert in the next edition of a publications which they are falsely informed the organisation has used before.
- Rogue publishers mislead organisations to believe they are registered charities by using names very similar to those of well-known charitable organisations.
- Rogue publishers claim that their publications are being produced in conjunction with other agencies, when these actually have no involvement at all.

RISKS AND CONTROL MEASURES

4.1 RISK - Rogue publishers advertising recruitment vacancies or purporting to advertise any other type of publication on behalf of your organisation.

CONTROL MEASURES:

1. Do not place adverts over the telephone
2. Request written details of the service being offered including the publishers full terms and conditions.
3. Keeping a record of calls from publishers noting all details.
4. Question invoice(s) for services that do not appear to have been received.
5. Register at www.tpsonline.org.uk/. To opt out of receiving unsolicited sales and marketing calls.

CASE STUDIES

Mandate Fraud

1. Change of bank details fraud (external)

- Shared Services provider who deals with financial services receives a fax purportedly from a construction company who have a contract with NHS trust.
- Information possibly obtained by fraudsters from publicly available material such as publicised list of invoices paid over £10k
- Fraudsters opened a bank account in the name of the company and made slight change to make it appear as a personal account.
- Instructed the shared service provider to change the bank details.
- £887,00 interim payment agreed
- Fraud discovered when genuine contractor contacted provider for payment
- Some funds recovered but £360,000 shortfall which could have been spent on patient care.

Insider Fraud

2. False creation of suppliers/undisclosed relationships

- Finance Director conspired with others to defraud a London Borough
- Set up fictitious employees of a company and arranged wage payments.
- Used council funds to book trips abroad with family and friends
- Arranged payments to a 'contractor' who turned out to be a fellow conspirator for non-existing building projects. (False invoices).
- Convicted at Crown Court
- Total loss to one of the poorest boroughs in Britain was £281,771.90.

Supplier Fraud

3. Supplier submitting false/duplicate invoices and work not delivered

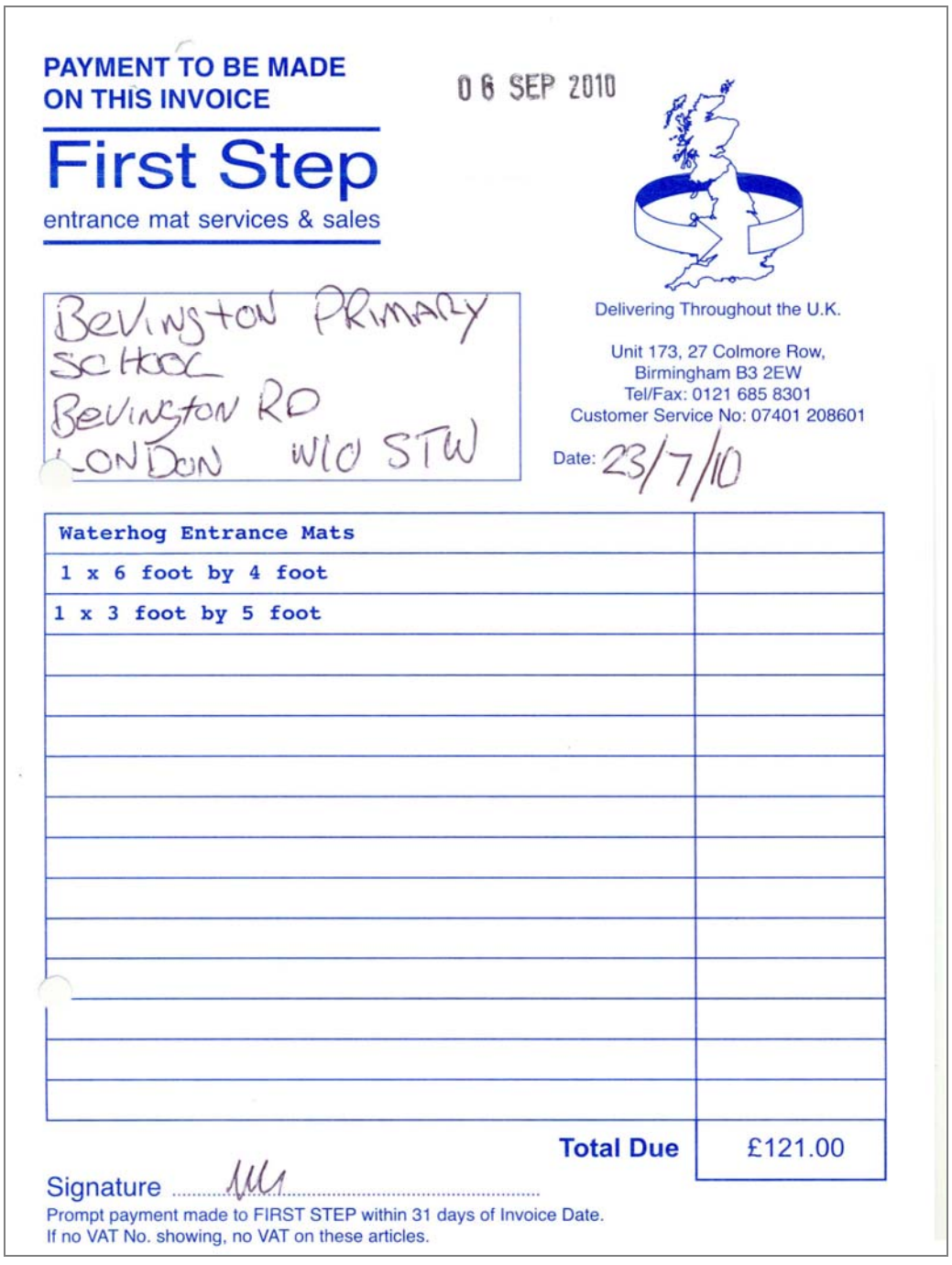
- Construction company won a contract and submitted invoices for work.
- A charge on an invoice was accidently paid twice by the organisation to the supplier.
- Supplier realised mistake had not been spotted so started to submit invoices with exaggerated amounts and went on to submit invoices for work not carried out.
- Staff realised the project was over budget with work incomplete and began querying payments
- Construction company went bankrupt thus minimising chances for recovery of funds.

Publisher Fraud

4. Fraudsters submitting invoices for advertising in bogus publications

- Fraud gang contacted NHS Trusts who were advertising vacancies in health magazines and journals.
- Posed as employees from bogus publications with a similar name to genuine publications.
- Forms faxed to NHS trusts to obtain signatures purportedly to approve adverts to reproduce in publications. These forms were actually booking forms for bogus publications.
- Invoices then sent in for payments.
- There were over 200 attempts to defraud NHS Trusts by false representation.
- Gang jailed for a total of 18 and a half years.

Example of Fraudulent Invoice



PAYMENT TO BE MADE ON THIS INVOICE

06 SEP 2010

First Step

entrance mat services & sales

Bevington PRIMARY SCHOOL
Bevington RD
LONDON W10 5TW

Delivering Throughout the U.K.

Unit 173, 27 Colmore Row,
Birmingham B3 2EW
Tel/Fax: 0121 685 8301
Customer Service No: 07401 208601

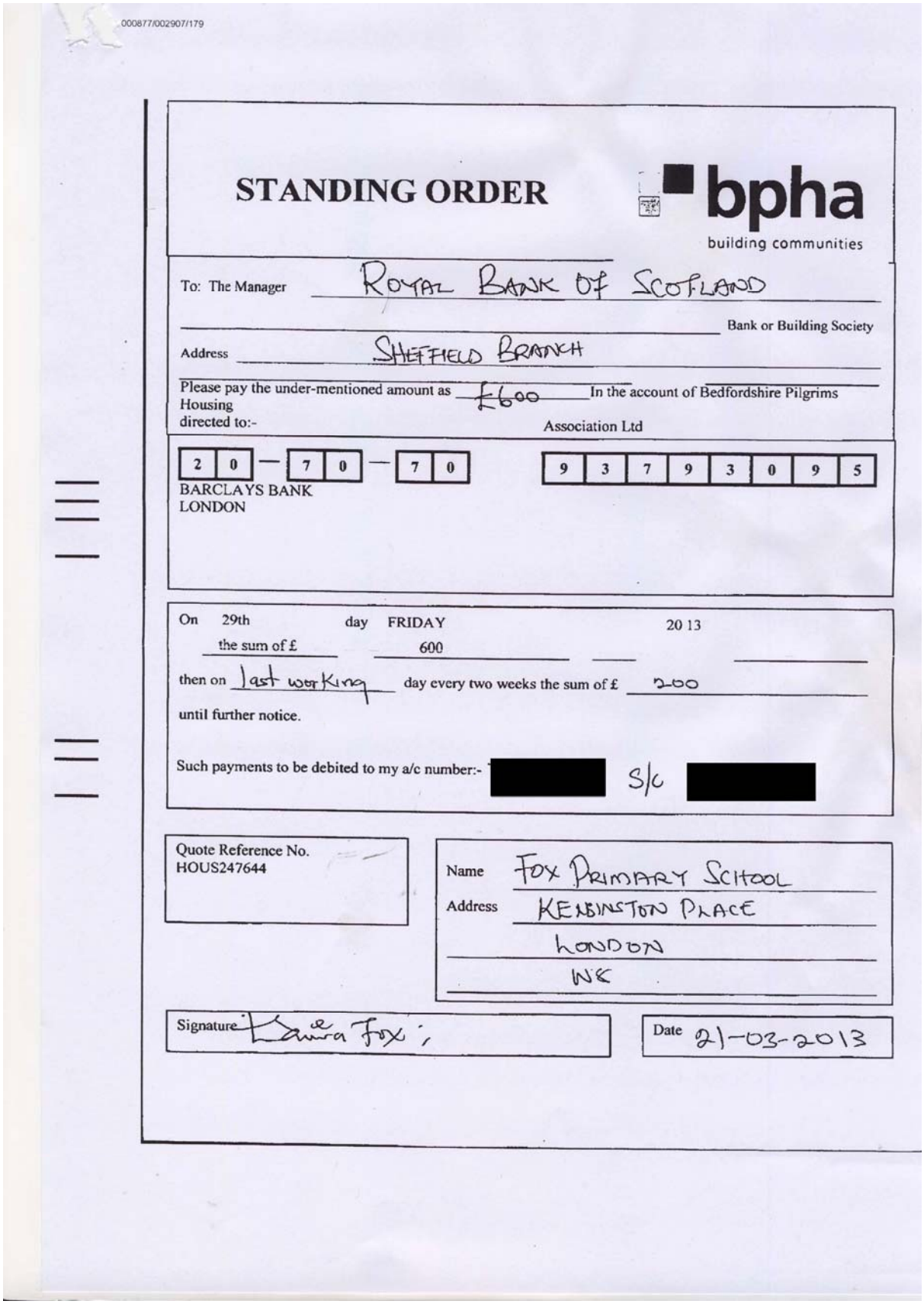
Date: 23/7/10

Waterhog Entrance Mats	
1 x 6 foot by 4 foot	
1 x 3 foot by 5 foot	
Total Due	£121.00

Signature .....

Prompt payment made to FIRST STEP within 31 days of Invoice Date.
If no VAT No. showing, no VAT on these articles.

Example of Fraudulent Standing Order Request



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STANDING ORDER

bpha
building communities

To: The Manager ROYAL BANK OF SCOTLAND

Bank or Building Society

Address SHEFFIELD BRANCH

Please pay the under-mentioned amount as £600 In the account of Bedfordshire Pilgrims Housing Association Ltd directed to:-

2	0	–	7	0	–	7	0

BARCLAYS BANK
LONDON

9	3	7	9	3	0	9	5

On 29th day FRIDAY 20 13

the sum of £ 600

then on last working day every two weeks the sum of £ 200

until further notice.

Such payments to be debited to my a/c number:- [redacted] S/C [redacted]

Quote Reference No.
HOUS247644

Name FOX PRIMARY SCHOOL
Address KENSINGTON PLACE
LONDON
NK

Signature Laura Fox

Date 21-03-2013