

Defective Pricing: Occurs in negotiated contracts when government contractors fail to disclose current, complete, and accurate cost or pricing data in their price proposals, resulting in an increased contract price.

- Contractor refuses, delays or is unable to provide supporting documentation for costs
- Contractor provides inadequate or incomplete documentation for cost proposals
- Use of out of date pricing information in cost proposals or cost-type contracts
- Discrepancy between quoted prices and actual prices
- Apparent changes to documents supporting cost calculations
- Apparent high prices compared to similar contracts, price lists or industry averages
- Unrealistically high profit margins on completed work
- Unusual variances between estimated or reported costs and actual costs
- Subcontractors or vendors used during contract performance that differ from the subcontractors or vendors named in the proposal or contract
- Subcontract or vendor prices differ from prices used in developing estimated costs
- Different people work on the contract than are named in the proposal or contract
- Materials, supplies, or components used in production are different than those used in the proposal or contract
- Labor hours charged during the contract are materially different than the estimated hours
- Contractor fails to record rebates, discounts, etc.
- Cost and pricing data are prepared by non-accounting personnel
- Items that have been estimated as direct costs are treated as indirect costs in the contractor's accounting records
- Protracted delay in release of data to the buyer to preclude possible price reductions

IT'S UP TO
YOU

**REPORTING IS SIMPLE,
AND METHODS ARE AVAILABLE 24/7.**



Local NCIS Office 619.556.1364



www.ncis.navy.mil



**Text "NCIS" + your tip info to
CRIMES (274637)**



**"Tip Submit" Android and iPhone App
(select NCIS as agency)**



1.800.264.6485

Web, text, and smartphone reporting is anonymous.

If you cannot report to NCIS, notify your security officer, supervisor, or command. Per DoDD 5240.06, they are required to notify NCIS within 72 hours.

NCIS may pay rewards up to \$5,000 for information leading to a felony arrest or the prevention of certain felony crimes.



NCIS FRAUD INDICATORS

NCIS Fraud Investigations and Reporting

These fraud schemes and their applicable indicators are provided in this handout to help identify possible fraudulent activity within the procurement arena.

Department of the Navy personnel shall report potential fraud activity to NCIS via the local NCIS office, or the channels listed in this pamphlet.

Information in this handout provided by:



To learn how to submit a tip via the NCIS Text, Web, and Smartphone App Tip Line, scan the QR code with your smartphone or visit www.ncis.navy.mil.

**IT'S YOUR DUTY TO REPORT.
IF NOT YOU, THEN WHO?**

FRAUD INVESTIGATIONS

NEVER

A VICTIMLESS
CRIME

every dollar lost to fraud, **impacts** your job and military readiness worldwide.



Product Substitution: The supply of materials or services that do not conform to contract requirements and which are supplied by means of intentional misrepresentation and/or concealment of material fact.

- Unusual or generic packaging
- Discrepancy between product's description or normal appearance and actual appearance
- Product identification numbers differ from published or catalogue numbers or numbering system
- Above average number of test or operation failures, early replacements, or high maintenance and repair costs
- Appropriate product compliance certificate is missing, or is apparently altered or modified
- Test performed or compliance certificate signed by unqualified or inappropriate personnel
- Laboratory test reports are identical to sample descriptions and test results, varying only as to date and lot number tested
- Contractor offers to select samples for testing programs
- Contractor selects testing company or performs test of the products itself, using own equipment
- Test records reflect no failures
- Test records reflect high failure rate, but contract is on time
- Photocopies of test results are submitted rather than originals
- Test results cannot be found or have been destroyed
- Test results are lost then "found" after a delay
- Test equipment is old, obsolete, out of order or not properly calibrated
- Test equipment calibration records appear to be altered
- Inspection tags or test report forms not properly controlled
- Contractor records indicate materials were not obtained from proper sources
- Supplier buys items from competitors that are identical to its own products
- Contract, unit or line item prices appear too low
- Significant differences between estimated and actual material costs
- Supplier purchases raw materials in lesser quantities than necessary to produce the specified items

- Contractor has non-government contracts for similar products
- Packaging materials, paint, stencils, engraving equipment, observed at the contractor's facility
- Contractor is behind schedule but quickly catches up
- Unusual or obliterated serial numbers; serial numbers are not consistent with legitimate manufacturer's numbering system
- Invoice or inventory item numbers or descriptions do not match purchase order terms; inventory item, number or descriptions do not match invoice terms

Public Corruption (Bribery): The giving or receiving of a "thing of value," to influence an official act or a business decision.

- Unexplained or unjustified favorable treatment of a particular supplier
- Unjustified high prices and explosive price increases
- Unusually high volume of purchases
- Unnecessary or inappropriate purchases
- Questionable, improper or repeated selection of particular supplier
- Procurement official accepts low quality, late delivery, etc.
- Close socialization between procurement official and vendor
- Procurement official accepts inappropriate gifts and entertainment
- TDYs/Trips involved with a solicitation
- Unexplained increase in wealth standard of living by procurement officials
- Procurement official has undisclosed outside business
- Supplier has reputation in industry for paying kickbacks
- Unnecessary middleman involved in contracts or purchases
- Questionable, undocumented or frequent change orders awarded to particular contractor
- Procurement official declines to file or fully complete conflict of interest questionnaire
- Procurement official insists prime contractor uses a particular sub contractor or bondsman for a project
- Procurement official takes little vacation time or declines promotion
- Procurement officials discuss retirement/separation for employment opportunity with contractor

- Telephone number/address of a vendor coincide with procurement official/gov't employee
- Lifestyle indicators: procurement officials with multiple homes, boats, luxury items; living beyond means
- Vendor address information is incomplete

Cost Mischarging: A very common scheme when a contractor has two or more government contracts (usually Firm Fixed Price and Cost/Cost Plus contracts).

There are three types of Cost Mischarging: Accounting mischarges, Labor mischarges and Material mischarges.

- Time and charges do not agree with contractor billing
- Transfer of Labor Costs
- Billing by Function, not actual hours worked
- Altered time cards presented to auditor Decrease in indirect expenses charged to the government
- Increased labor hours with no corresponding increases in material used or units shipped
- Reclassification of employees from direct to indirect charge
- Frequent labor cost transfers near the end of or following the contract
- Transfers of labor charges to or from overhead accounts
- Charging costs to the buyer as warranty costs for the correction of known defects
- Posted (at job site) notices that certain work order numbers may no longer be charged
- For similar tasks, lower unit costs on a fixed price contract with much higher prices listed as unit costs on a cost plus contract
- Fixed price contracts that are always completed with actual programmed labor hours/costs
- High percentage of employees charging to indirect accounts
- Charging costs to the buyer as warranty costs for the correction of known defects
- Unusual variations in labor rates for a specific employee from pay period to pay period
- Complaints by employees of not receiving prevailing wage
- Pattern of overtime charging for certain employees
- Charges for large quantities/highly visible materials not present at either the job site or contract facility
- Initial billings for actual material costs different from the price agreed upon during contract negotiations
- Later billings show a downward adjustment in material costs as labor/overhead costs increase. Seeking to continue profit margins
- Consistently poor, illegible copies of supporting documentation for costs incurred

