
Foreign Service National

The Scenario

An auditor was reviewing service contracts at an overseas location. During the review, the auditor attempted to call the contractor responsible for evaluating the effectiveness of Department of Defense disaster relief programs, and discovered that the business telephone number was not valid. The auditor then reviewed the contract files and located the company's corporate address. The auditor drove to the company's address and found an empty lot. The auditor returned to the office and interviewed the responsible contracting officer. During the meeting, the contracting officer stated that they had never met the contractor or visited their business location because he had not received any complaints from agency officials on the contractor's work.

The auditor then expanded the scope of the audit and discovered that a Foreign Service National (FSN), employed by the Government, had been establishing phony companies to procure services for the Government for several years. The FSN's scheme was enhanced by their membership on the Department of Defense committee that approved and awarded contracts to local companies bidding on government service contracts. For example, a contract involved an upgrade of a Department of Defense telephone system, which involved rewiring the current system to provide faster, more reliable service. Because the contracts were for services, Government personnel did not receive inspection or receiving reports. The auditor's work disclosed numerous companies with fictitious names, telephone numbers, and post office box numbers instead of street addresses.

General Comments / Lessons Learned. It is important that the auditor authenticate the existence of a contractor when performing an audit. The government's reliance on service contracts has increased the auditor's responsibility to ensure that companies providing goods or services to the Government actually exist. When possible, the auditor should ask the contracting officer for specific details on internal procedures to monitor the contractor's work and contract deliverables.

FRAUD INDICATORS

- **Contractor addresses are post office box numbers instead of street addresses.**
- **Contractor telephone numbers are not valid.**
- **Contract administration personnel have never met the contractor, visited their business location, or validated that the contractor completed the required work.**