
Leases

The Scenario

The auditor was asked to determine the validity of leases submitted by service members receiving Base Allowance for Housing (BAH) reimbursements because of ongoing reports of abuse within the Department of Defense. They selected a sample of ten leases and completed the following review steps:

- Researched local business records to determine if the leasing companies were authentic and business addresses were valid.
- Reviewed court records to determine the legal owners of the properties. This information was then compared to the lessor/lessee information on the official lease agreements.
- Sent letters to leasing company owners to verify the accuracy of monthly property rental fees. The auditor compared this information to Defense Finance and Accounting records for BAH reimbursement claims.

The auditor's review, completed during February 2007, identified the following suspect information for one lease agreement:

- During April 2006, Service Member A signed a lease agreement for a property with a representative from Leasing Company ABC. The monthly rental fee was \$3,000, due the first of each month.
- Court records indicated that Service Member A purchased the rental property during June 2006 and there was not a record of it ever being sold.
- Business records showed that Leasing Company ABC was located over two hundred miles from the rental property address. The auditor's research disclosed that the company's address was not consistent with the information on the lease. Specifically, the lease agreement showed the address as 10 Main Street, but the company was actually located at 150 Main Street. The auditor noted that this error might be intentional to prevent any Government correspondence from reaching the leasing company regarding the lease agreement or their relationship with Service Member A.
- Inquiry with Leasing Company ABC representatives disclosed that the company did not have any business relationship with the lessor or lessee.

The auditor's review of Defense Finance and Accounting Service records showed that Service Member A received approximately \$33,000 in fraudulent BAH reimbursement claims. However, the lease did not expire until April 2008, resulting in a projected estimated loss to the Government of \$42,000.

General Comments / Lessons Learned. The Government is exposed to increased monetary losses when BAH fraud schemes are not detected because lease terms can extend for several years. When conducting BAH reviews, it is important for auditors to verify the authenticity of both the leasing company and the lease agreement. As shown in the scenario, the names of valid leasing companies were used in prior BAH fraud schemes.

FRAUD INDICATORS

- **Court records show that the service member owns the leased property.**
- **Leasing company information is not consistent with information on the lease agreement. (i.e. errors in the business address or names of company representatives).**
- **Leasing company does not have a business relationship with the lessor or lessee and/or was not involved with the lease negotiations.**