

This newsletter is published on a monthly basis to provide relevant information to government purchasing and contracting professionals regarding public procurement and contracting topics. Hope you enjoy!

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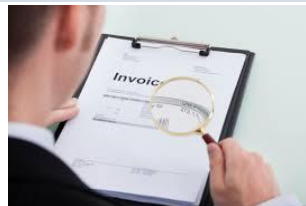
Texas Legislative Watch



The 85th Texas Legislative Session began on January 10th. The deadline for bill filing is March 10th. GPS will be tracking procurement and contract related bills throughout the session and will update and post a weekly [Legislative Watch](#) on the GPS website.

Invoice Fraud

Invoice fraud is when fake invoices are sent to targeted governmental entities in an attempt to extract money from entities with vulnerabilities in their accounts payable processes. Fraudsters create phony invoices that look legitimate except for small discrepancies such as a different address.



The scheme of fraudulent invoicing has been around for many years. However, with today's technology, fraudulent invoices are now more difficult to detect. Some "red flags" for fraudulent invoices include:

Training Schedule



2017 Workshop Prices:

\$300 (1-day)

\$515 (2-day)

Group Discounts
Available

Agile Project Management

October 6, 2017

Austin

Communications & Stakeholder Management in Projects &

1. **Distorted company logo.** If the logo was scanned, it won't look as "crisp" on the scanned version.

2. **Invoices in even amounts.** The majority of invoices are not nice rounded numbers.

3. **Change in contact information.** Look for minor changes like the email address changed from a .org to a .com address.

4. **Invoices just below approval amounts.** Fraudsters will keep the invoice below the amount that requires supervisor or management approval. Identify invoices that are 3% less than the approval amount. For example, if the approval amount is \$3,000, then any invoice between \$2,910 and \$2,999 would be flagged as suspicious.

5. **Above average payments per vendor.** Develop an algorithm to identify invoices that are way above average for a particular vendor. If a vendor normally invoices amounts ranging from \$5,000-\$10,000; then suddenly an invoice shows up for \$40,000. You may want to investigate further.

6. **Cross Check Vendors/Employees.** Although most employees are trustworthy, it doesn't hurt to cross check your vendor and employees files to see if an employee has set up a fictitious vendor. Cross check areas such as address, tax ID number, and telephone number.

7. **Vendors with a mail-drop address.** Some fraudsters will use mail drops as their address instead of a P.O. Box in order to hide their fraudulent activity. Of course, not all vendors using a mail drop are fraudulent, but if they use a mail-drop and have other red flags, further review is required.

8. **Duplicate invoices.** Most accounting software has controls for duplicate invoices, but it usually takes some in-depth querying to find them all. For example, if you add an "A" to the invoice number or change the amount by a penny, the software won't detect it as a duplicate. This can be corrected by implementing "similar" matching instead of exact matching. For example:

- Invoice numbers are considered similar if they are exact after stripping out any zeros and any alpha characters, as well as punctuation characters.
- Invoice dates are considered similar if the difference between the dates is less than a designated amount - such

Contracting

October 5, 2017

Austin

Contracting in an Agile Project Environment

March 3, 2017

Austin

April 21, 2017

Houston

July 19, 2017

DFW

Essentials of Contract Management

April 26-27, 2017

DFW

June 28-29, 2017

Austin

Sept. 27-28, 2017

Houston

Effectively Managing

as 7 days.

- Amounts are considered similar if they meet one of the three criteria:
 - The amounts are 5% +/- the other amount
 - One amount is exactly twice the amount of the other.
 - The amounts start with the same first 4 digits, e.g. \$123.45 and \$1234.55

9. **Understand Benford's Law** (aka, the first-digit law). The law looks at the statistical probability of the first digit in a sequence of numbers. Invoice data follows a sequence of numbers. When numbers appear more often than they should, that is a red flag that you may have a questionable invoice. For example, Benford's Law says:

- The #1 should show up 30% of the time
- The #2 should show up 17% of the time
 - The #9 should show up 4.5% of the time

**SPOT
THE
FAKE**



A recent case of false invoicing involved the owner of a Houston-based business. He pleaded guilty in federal court in a scheme that involved \$13 million in false invoicing. John Blake Tinkle, 60, the owner of Tinkle

Management Inc. in Tomball, Texas, admitted to invoicing another business for approximately \$13 million of shipping supplies that were never delivered. The scheme ran from 2008 through 2015.

Tinkle's company delivered plastic shipping bags to Packwell Inc., which used them to ship the products of a third company, Westlake Chemical Corp. Tinkle would invoice Westlake for the bags - and then would also invoice Westlake for bags that had never been delivered, doctoring receiving reports from Packwell to serve as proof.

Tinkle would also present the fake invoices to a Houston factoring company, Charter Capital, to get funding based on the non-existent sales. Tinkle faces up to 20 years in prison for wire fraud, 10 years for money laundering, and a \$250,000 fine.

The risk of fraud can never be completely eliminated, but it can be reduced and the fraud can be deterred by good accounting and management practices.

Sources:

Multiple Projects /Contracts & Time Management

March 2, 2017

Austin

April 20, 2017

Houston

July 18, 2017

DFW

Ethics in Contracting

June 6, 2017

Houston

July 13, 2017

DFW

Sept. 12, 2017

Austin

Fundamentals of Public Purchasing

May 30-31, 2017

Houston

Sept. 14-15, 2017

DFW

Warner, Christine L. "Ways to Identify Accounts Payable Fraud", AuditNet

"Employee Fraud: False Invoicing", Deloitte, February 2015

Azara, Jennifer. "5 Tough-to-Spot Signs that Invoice is a Fake" CFO Daily News, November 11, 2016

Question of the Month

QUESTION: In the previous legislative session, SB 20 required that the Comptroller of Public Accounts (CPA) conduct a Centralized State Purchasing Study. Do you know if that study was ever done and if so, where I can find a copy?



Also, did the delegated purchasing authority from the CPA change? My co-worker said it did, but I can't find where to verify the change.

ANSWER:

In answer to your question about the Centralized State purchasing Study, the study was completed and you can download a copy of the report from the [CPA website](#).

In regard to your question about the delegated purchasing authority, the delegated limit for goods was increased from \$25,000 to \$50,000 per change to the [Texas Administrative Code](#). This change is effective January 24, 2017.

Dec. 12-13, 2017

Austin

Negotiation Skills

June 7, 2017

Houston

November 14, 2017

DFW

Procurement Management Academy

April 4-5, 2017

Austin

May 2-3, 2017

DFW

Sept. 21-22, 2017

Austin

October 4-5, 2017

Houston

Purchasing 101 for Everyone

March 7, 2017

DFW

April 6, 2017

Austin

November 9, 2017

Houston

**Schedule
Management in
Projects &
Contracts**

June 28, 2017

Austin

November 17, 2017

DFW

**Scope
Management in
Projects &
Contracts**

June 27, 2017

Austin

November 16, 2017

DFW

**Specification
Writing**

March 8, 2017

DFW

September 13, 2017

Austin

November 8, 2017

Houston

**Using Request for
Proposals**

Feb. 28-Mar 1, 2017

Houston

Oct. 10-11, 2017

DFW

Nov. 14-15, 2017

Austin