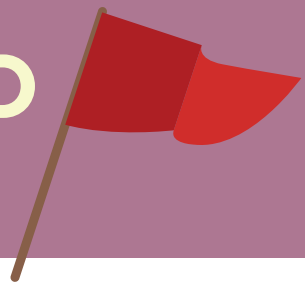
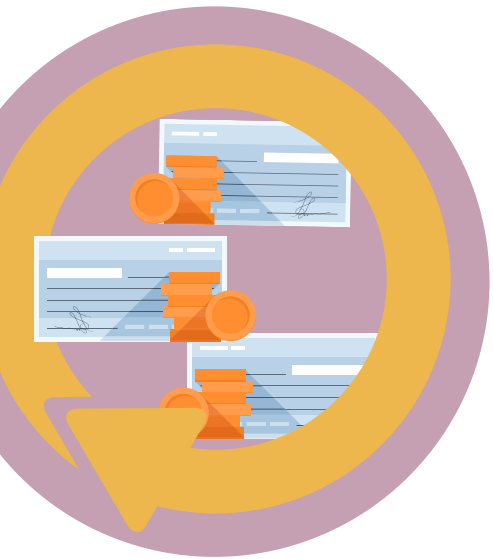


SUPPLY CHAIN FRAUD

What are the red flags?



A supply chain is a system of organizations, people, activities, information, and resources involved in procuring a product or service. Supply chain risks extend to an organization's direct suppliers and subcontractors who provide source materials to the suppliers, as well as staff purchasers, materials managers, shopkeepers, invoice processors and others. Mitigating supply chain fraud requires a coordinated effort among multiple stakeholders in an organization, including procurement, materials management, legal, and finance personnel.



UNUSUAL PAYMENT PATTERNS

Pay attention to payment patterns that include increased frequency of payments, numerous transactions just under audit thresholds, and multiple invoices received in a short period, any of which may indicate possible fraudulent payments.

PURCHASE ORDER IRREGULARITIES

Look out for purchasing employees using unapproved vendors or not obtaining optimal pricing, possibly to benefit themselves, family members, or other related parties.



THIRD-PARTY RISKS

Investigate a lack of details in third-party invoices and sole-source supplier agreements that don't clearly explain the good or service being provided.



SUBSTANDARD PARTS

Don't ignore substandard parts, which may be supplied when quality assurance protocols are modified or circumvented and when obvious safety concerns are ignored because of pressure for expedience.

TIPS FOR PREVENTING MISCHARACTERIZED EXPENSE SCHEMES

- Perform a due diligence review of procurements and suppliers for potential conflicts of interest, performance, and compliance. Ensure segregation of employee duties is built into the supply chain process and that the process is being followed as it was designed.
- Perform timely monitoring of supply chain processes; do unannounced inspections to check the inventory counts, support documentation, and quality assurance reviews.
- Provide data analytics and reporting tools for continuous, timely monitoring; identify any questionable procurement patterns or transactions.

Visit www.sfgov.org/whistleblower to see how to file a report.

