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Is a lack of a structured procurement process a leading indicator of fraud?

An interesting piece in the November 2016 issue of Inbound Logistics magazine caught my attention. The short article titled "Hey, Where Did All This Stuff Come From?" outlines a survey by AmeriQuest Business Services with regards to the procurement process. Based on the results of the survey, procurement professionals informed that:

- <> 15% do not know which department manages procurement
- <> 1 in 5 are not aware of discounts or rebates they could be receiving
- <> One-third are not sure of who has the final sign-off right to procurement at their company
- <> More than one-third are not sure how procurement is viewed within their company
- <> 1 in 5 say their company does not have a procurement process in place

Of the respondents, 33% state that procurement sits within the Finance department, 22% state that procurement sits within the Operations department, and 7% state that procurement sits within the Information Technology department. Perhaps depending on what is being procured individual departments have authority for the spend below a certain dollar amount in some companies.

Given the rather unflattering statistics about inconsistently structured procurement processes, I wondered how the procurement or purchasing department fared when it came to fraud. I consulted the 2016 Report To The Nation by the Association of Certified Fraud Examiners. The RTTN is essentially the de-facto detailed analysis of fraud statistics referenced by darn near everyone.

The purchasing department ranked 7th from the top of 17 departments when it comes to the frequency of frauds, and it ranks 8th out of 17 in terms of the median loss.

But when the statistics are consolidated by perpetrator department, and the purchasing department is compared to accounting, operations, sales, executive/upper management, customer service, finance, and warehouse/inventory for the variety of schemes, the purchasing department stands out in a significant statistic: it is head-over-heels above all other departments in corruption schemes (68.9%), with executive/upper management taking second place in the corruption race (50.9%).

I would submit that it would be an interesting research study to merge the two initial surveys and ascertain if corrupt purchasing/procurement departments were the ones where there were a lack of structure, loose organization, and gaps in internal controls. My guess is that there would be some cause and effect.

Happy Purchasing!

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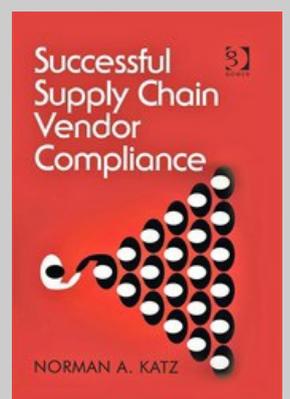
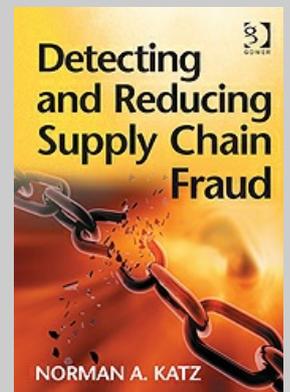


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