Audit of Fraud
Fraud Detection Techniques & Forensic Audit

Fraudulent Payment
- A Case Study

Indian Audit & Accounts Department
Regional Training Institute
26/1, Civil Lines, Nagpur
E-mail address: rtiaadnr_ngp@sancharnet.in
Phone: (0712)-2545420, 2545816, 2545829
Fax: 0712-2562577
From the PD’s Desk

As a part of our pursuit towards excellence in training in the area of “Audit of Fraud, Fraud Detection Techniques and Forensic Audit”, we bring out a series of cases of frauds reported in the audit reports of the Comptroller and Auditor General of India, as case studies. Simultaneously, we also endeavor to consolidate the approach and methodology followed by fraudsters in committing them as well as the manner in which they were prevented/detected.

This case study, “Fraudulent Payment” has been prepared based on the material reported under para 4.1.1(ii) of the report of the Comptroller and Auditor General of India for the year 2006-2007 Government of Maharashtra. I take this opportunity to extend my sincere thanks to Ms. S. Snehalatha, Accountant General (A & E) II, Maharashtra, Nagpur who made us available the relevant documents of the case whenever requested for. I am also thankful to her for arranging for validation of the facts reported and conclusions drawn in the case study.

I commend the efforts of Shri K. G. Hatwar, Sr. Audit Officer/Core Faculty in preparing this case study on the lines directed from time to time.

I hope that the readers would benefit from this. Their suggestions, if any, would help us in future such attempts.

RTI, Nagpur
Dated: April, 2009

Dr. Sadu Israel
Principal Director
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Fraudulent Payment

1. Background
Chief Conservator of a Forests, Territorial, Pune passed medical reimbursement claims of a Forest Guard, inflated by overwriting on the amounts billed by the Medical Attendant leading to fraudulent payment of Rs. 0.43 lakh.

2. Fraud Environment
As per provisions of Maharashtra Treasury Rules, 1968 and Govt. directives (May 2006), the Drawing & Disbursing Officers of Forest Department should draw all claims relating to their staff (except the claims/ expenditure on works and contingencies) through the nearest treasury/sub-treasury by presenting bills in the department. The DDO should also examine and verify the authenticity of the bills submitted besides the arithmetical accuracy. According to the system in place the personal claims submitted by staff are processed by the office of the CCF Territorial, Pune and the Treasury, if advised for payment.

3. Opportunity to Prevent Fraud
The act of fraud explained in detail at para 4 could have been avoided through the following internal controls.
   a) Verification of the supporting documents vis-a-vis the amount claimed.
   b) Scrutiny of the claims with overwriting.
c) Presenting the bill to the Treasury/sub-treasury for further processing instead of processing the claims for payment through 'contingencies'.

4. Act of Fraud

Two Medical claims amounting to Rs. 0.19 lakh was inflated by overwriting by claimant. Similarly, one bill of Rs. 0.24 lakh was sanctioned without any supporting documents. Thus, there was fraudulent payment of Rs. 0.43 lakh (Rs. 0.19 lakh + Rs. 0.24 lakh) as summarized below:

<table>
<thead>
<tr>
<th>Name of patient</th>
<th>Treatment taken</th>
<th>Period of treatment</th>
<th>Amount due as per supporting bill (Rs.)</th>
<th>Amount claimed (Rs.)</th>
<th>Excess claimed (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alka B. Machale (Wife)</td>
<td>Gynecological emergency (Gaikwad Hospital, Pune)</td>
<td>24-5-2006 to 30-5-2006</td>
<td>19084</td>
<td>28472</td>
<td>9388</td>
</tr>
<tr>
<td>Tarubai S. Machale (mother)</td>
<td>Dog bite (Sonone Surgical and Ophthalmic hospital Daund, Pune)</td>
<td>15-6-2006 to 30-6-2006</td>
<td>10834</td>
<td>20119</td>
<td>9285</td>
</tr>
</tbody>
</table>

5. Opportunity to detect and proving the Fraud

The Central Audit Party of the Accountant General (Audit- II) Maharashtra, Nagpur during the Central Audit of the accounts of the Chief Conservator of Forests noted that in a particular medical claim (Voucher No. 9 of October 2006) a forest guard noted tampering of the figures in the bills or bills processed without supporting
documents were noted. The following red flags indicators enabled audit in detection of the fraud.

6. **Red Flag Indicators**
   a. DDO did not attest the entries in the cash book nor did he verify the vouchers.
   b. Supporting documents not attached to the bill.
   c. Marks of overwriting were noted on a bill claimed.
   d. The claims were handled in-house and not processed through Treasury.

7. **Lessons learnt**
   1. Failure of Drawing & Disbursing Officers to exercise preventive controls in the system by not attesting each entry with reference to paid vouchers, create scope for fraudulent payments.
   2. Failure to process the bills due to be processed through Treasury could lead to frauds due to missed opportunity of additional external scrutiny.

8. **Enclosures for reference key**
   i) Copy of Audit Report, March 2007, Para 4.1.1 (ii)
   ii) Copy of Inspection Report
   iii) Copy of Half Margins
   iv) Supporting key documents.
Chief Conservator of Forests, Territorial, Pune passed medical reimbursement claims of a Forests Guard, inflated by overwriting on the amounts billed by the Medical Attendant leading to fraudulent payment of Rs 0.43 lakh.

Government directed (May 2006) the Drawing and Disbursing Officers of Forests Department that from September 2006 they should draw all claims relating to their staff (excepting the claims / expenditure on works and contingencies) through the nearest Treasury/ Sub Treasury by presenting bills as per the provisions of Maharashtra Treasury Rules, 1968.

During central audit of the accounts of the Chief Conservator of Forests (CCF), Territorial, Pune it was observed (April 2007) that the CCF passed following medical claim preferred by Shri B. S. Machale, Forest guard (claimant) for treatment of his mother and wife. Scrutiny of two claims showed (April 2007) that the claimant had inflated the claims by overwriting the figures in the bills. Details were as under:

<table>
<thead>
<tr>
<th>Name of patient</th>
<th>Treatment taken</th>
<th>Period of treatment</th>
<th>Amount due as per supporting bill</th>
<th>Inflated figures</th>
<th>Excess claim</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alka B. Machale</td>
<td>Gynecological emergency (Gaikwad Hospital Pune)</td>
<td>24-5-2006 to 30-5-2006</td>
<td>Rs 19084</td>
<td>Rs 28472</td>
<td>Rs 9388</td>
</tr>
<tr>
<td>Tarubai S. Machale</td>
<td>Dog bite (Sontone Surgical and Ophthalmic Hospital, Daund, Pune)</td>
<td>15-6-2006 to 30-6-2006</td>
<td>Rs 10854</td>
<td>Rs 20119</td>
<td>Rs 9285</td>
</tr>
</tbody>
</table>

Third claim of Rs 23995 for treatment of his mother at Sontone Surgical and Ophthalmic Hospital, Daund, Pune during 14 April 2006 to 30 April 2006 for
'dog bite' was sanctioned and paid (June 2006) without any supporting documents. CCF had paid (June-July and October 2006) the bills by classifying the expenditure as contingencies in violation of the Government's directives of May 2006.

The claimant, thus, claimed Rs 42668 by fraudulent means which the CCF, not only failed to notice but also failed to disallow the payment besides their payment from contingencies in violation of Government directives. Could also be intended to avoid detection of omission:

The matter was brought to the notice (May 2007) of the Principal Chief Conservator of Forests for investigating the matter.

The matter was referred to the Principal Secretary to Government (June 2007).

Reply had not been received ( ).

Accountant General
महाराष्ट्र शासन
विभाग विभाग
शासन निर्णय ग्रंथकार: मराठी-१०००/प्र.०४५/०५/कोपा-४-१
मंगळ, सुंदर-५०० २३२.
दिनांक: १२ मे, २००६

पाण्या: १) शासन निर्णय: मकरणी-१०००/प्र.०४५/०५/कोपा-४-१, दिनांक २ जानेवारी, २००३
२) शासन निर्णय: मकरणी-१०००/प्र.०४५/०५/कोपा-४-५, दिनांक ५ मार्च, २००६
३) शासन निर्णय: मकरणी-१०००/प्र.०४५/०५/कोपा-४-५, दिनांक १८ एप्रिल, २००६

शासन निर्णय:

महाराष्ट्र शासन विभाग ने २००६ आर्थिक वर्ष महाराष्ट्र शासन निर्णय ३५६ अधिकारी, नागरिकता, २००९ पाण्या विभाग विभागनिर्णय ३३५ व आकर्षक वर्च स्वतंत्रता संगठन कार्यलयातील निर्धारित कार्य्यांकांना तर्क, आर्थिक विविधता पदहेकरीत ३६२ महाराष्ट्र शासन निर्णय ३५६ नागरिकता महाराष्ट्र कार्यांकांना, गंडे-गंडे मराठी निर्णय ३५६(१) व प्रशासन पाण्या कार्यांकांना, विविध नियमांकर्ते देखील संबंधी कॉलेज, तिन विभागांची कार्यालयांची योग नियोजित देखील आहेत ते, किवा दर्शन कार्यांकांचा, उर विभागांचा संबंध संबंध, सक्रिय आहेत, कार्यालय नियोजित आहेत. आहे.

२. वातावरण पूर्णाची आधारीत बदल प्रदान योजना नागरिकता विभाग २००६ शरद पाण्या निर्णयांनुसार ही आर्थिक विविधता प्रकृति २००३ या शेतसाहित्य व रसायन विभागांच्या वृत्त निर्माण अथवा उद्योगासाठी निर्माण अथवा उद्योगांना संबंधित काय संदर्भात नरसंघांची आर्थिक अवास्था प्राप्त आहेत. हाय व शासन निर्णय ३५६(३) जानेवारी, २००६ या आर्थिक विविधताच्या संदर्भात उद्योगासाठी प्राप्त कर्त्यांच्या, अशीला विभागांची दिनांक आहे.

३. वर्तमान प्रक्रिया विभाग वेळन अवर निर्णय ३५६ जानेवारी, २००६ या शासन निर्णयांतील विषयांतील संदर्भात जागतिकता नागरिकता बंदन देखील संबंध आर्थिक विविधता प्रकृति २००१ प्रस्ताव, विविधता कार्यांकाच्या वेळन अवर आहेत. ताही या विभागांना संबंधित निर्णय ३५६ जानेवारी, २००६ या शेतसाहित्य व रसायन विभागांच्या नागरिकता बंदन देखील संबंध कार्यांकाच्या आर्थिक अवास्था संबंधात कर्त्यात.

४. साधनांमुळे शेतसाहित्य वेळन देखील संबंधित नागरिकता संबंध होऊ शकतो नागरिकता कार्यांकांतील अभिभावक एवढा नागरिकता संबंधित निर्णय ३५६ या शेतसाहित्य व रसायन विभागांच्या नागरिकता बंदन देखील संबंध आर्थिक अवास्था संबंध कर्त्यात.

महाराष्ट्र शासन विभागनिर्णयांना आधारित अतिरिक्त नियमांकनांसाठी संबंधी नागरिकता विभागांतील अभिभावक एवढा नागरिकता संबंधित निर्णय ३५६ या शेतसाहित्य व रसायन विभागांच्या नागरिकता बंदन देखील संबंध आर्थिक अवास्था संबंध कर्त्यात.

प्रमाण

१) महाराष्ट्र ग्रंथकार (लेखक व अनुग्रहक) -१, महाराष्ट्र गंडे,
Subject: Suspected Fraudulent Claim Rs. 10,000/- (Vr. No. 9 & 10/06)

During scrutiny of Vr. No. 9 & 10/06 regarding medical reimbursement claim of Shri B. S. Nachale, Forest Guard, Mobile Squad, the following observations were made:

1) Shri Nachale, Forest Guard, has submitted medical claim for Rs. 32,104/- in respect of his mother Shri. Tanaji S. Nachale for undergoing treatment at Dr. Sankara Nataraja Hospital, Daund, Pune. The claim was admitted for Rs. 20,119/-

2) Vr. No. 9 & 10/06. It is however noticed from Form D and medical bill that the hospital charged an various items for Rs. 12,104/- certified by the hospital. According to Form D, Shri Nachale was admitted by the Chief, however, it appears to have been tampered and inflated to Rs. 12,104 resulting in suspected fraudulent payment of Rs. 10,000/- It is further observed from Form D that the patient underwent treatment in a hospital during 15.4.2006 to 30.4.2006 which also appears tampered and certified as 15.6.2006 to 30.6.2006.

3) Shri Nachale was not in the Finance Department’s list of personnel for the year 2006 and there is no record of his medical expenses being paid for the year 2006. However, during the scrutiny from September 2006 onwards, medical claim being a personal nature of claim was drawn and disbursed by the debit office after the

(Handwritten Signature)
instead of presenting claims to treasury violating
Cust. instructions and misuse of drawing and
disposing powers by the above drawing officer.

(iii) possibility of deliberate inclusion of such
fundamental claim in office expenses to avoid
 scrutiny by treasury who can not be misled out
which needs investigation against one estabishment
staff and superiors.

Above observations are brought to notice for
Comments,

Chief Conservator of Forests,
Conservatorship, 11th P. M.T. Road,
Swargate, Pune - 411 037.

Copy forwarded to:

1) Principal Chief Conservator of Forests, Van Bhaban,
Civil Lines, Nagpur.

2) Secretary to the Govt. of Maharashtra, Res.
Forest Dept., Ranchi, Bihar.

(iii) SIR. AO/CHF(L.) (Local) with a request to
make a note in a special point for further
Implementation.

(Signed)

(M.O.)