



# PREVENTION in focus

## Procurement fraud attracts prison sentence

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### What you should know

- On 31 May 2019, a former Queensland Fire and Emergency Services (QFES) Inspector, Steven Sparks, was jailed for three years, to serve six months, after pleading guilty to four counts of official corruption.
- The investigation into Sparks, which began in 2017, was a joint operation by the Crime and Corruption Commission (CCC), the Ethical Standards Command of the QFES and the Queensland Police Service's (QPS) Financial and Cyber Crime Group.
- As the case progressed, evidence revealed multiple types of corrupt behaviour including undeclared secondary employment, undeclared conflicts of interest, supervisory failures, fraudulent procurement and improper disclosure of confidential information.
- The investigation was not revealed by internal controls but from information from people outside the department, including an anonymous source.

Using the recent conviction of a senior public servant, this paper highlights that procurement fraud and conflicts of interest continue to be major corruption risk areas for the public sector.



*QAO warned agencies  
of fraud becoming  
more prevalent and  
sophisticated*



At the time of the offending, Sparks managed a unit that handled significant procurement for QFES, including sourcing uniforms, the cleaning and decontamination of uniforms and warehousing of QFES inventory.

Sparks arranged secondary employment for himself as a consultant with two companies that were tendering for QFES work. He took active steps to assist those companies in the preparation of tenders for QFES work worth more than \$10 million, including:

- releasing confidential tender information before it was available publicly
- assisting the two companies write and prepare their tender documents
- providing technical knowledge to the two companies to assist their tenders
- providing feedback and suggestions on their tender documents and
- making recommendations to selection panels that those companies be selected.

Sparks never disclosed either the secondary employment or his involvement in the tender process to his employers at QFES, nor did he ever declare any conflict of interest. The evidence showed he took steps to hide his involvement with the two companies from other QFES employees.

In his role as a consultant to one of the companies, Sparks wrote the bulk of the company's tender to QFES. Weeks later, in his role with QFES, he assessed the same tender and recommended that the company be selected. He awarded the tender 87/100 points and provided many favourable comments about the quality of the tender.

Sparks earned just under \$200,000 from the companies during that time.

In his sentencing remarks, Judge Gregory Lynham said:

Anyone holding the rank you did was placed in a position of trust, and ... your offending...goes to the very heart of a gross breach of trust by you. Your offending cannot be described as a one-off. It occurred over a significant period of time. ... Regrettably, you [fell into the] temptation of making money as a consequence of misusing your position.

Sparks was sentenced to three years' imprisonment, to be suspended after serving six months.

Three other defendants are still in court on related charges.

Multiple procedural recommendations were made to QFES regarding secondary employment, conflicts of interest and governance issues.

## QAO report highlighted vulnerabilities

At about the same time as the investigation, a report from the Queensland Audit Office (QAO) had highlighted potential fraud risks involved with procurement and contract management. One of the agencies audited was QFES.

Among its audit conclusions, the QAO stated:

None of the agencies we audited is effectively managing fraud risk, leaving themselves potentially exposed to fraud. Agencies have not applied the findings from our previous two reports on fraud risk management. We are still observing gaps in governance, fraud identification, detection, and prevention.

It is particularly concerning that agencies are not taking the opportunity to proactively manage fraud risk as the incidents and attempts of fraud become more prevalent and sophisticated.<sup>1</sup>

A table in the report highlighted specific risks around procurement panels and decision making.

Fraud risk	Risk factor	Risk description
<b>Fraudulent procurement by employees or contractors</b>	Employees make procurement decisions for high value work on a regular basis.	Risk of employees fraudulently: <ul style="list-style-type: none"> <li>manipulating the value of or adding to an existing approved purchase order</li> <li>splitting purchases to levels below delegation to avoid the procurement team's oversight</li> <li>seeking inappropriate exemptions to the tendering processes for purchases</li> <li>fraudulently manipulating or misstating vendor quotes to disguise larger purchases.</li> </ul>
<b>Fraudulent procurement practices by suppliers</b>	The same pool of suppliers may bid for multiple high value jobs with the agency over time.	Risk of suppliers fraudulently: <ul style="list-style-type: none"> <li>colluding on tender submissions and deliberately favouring a supplier or increasing prices to spread the benefits and increase the available prices</li> <li>entering a "cover bid" for a tender from a linked company without declaring the linked ownership of the competing company.</li> </ul>
<b>Fraudulent contract management by employees</b>	Employees manage ongoing contracts with suppliers.	Risk of employees fraudulently managing ongoing contracts with suppliers by: <ul style="list-style-type: none"> <li>falsely claiming for service or goods delivered prior to the event</li> <li>approving fraudulent variances in construction costs</li> <li>authorising fraudulent invoices</li> <li>agreeing to pay invoices and amounts earlier than required</li> <li>waiving supplier liabilities or obligations included in contracts</li> <li>modifying contract terms (e.g. unauthorised extension of contracts)</li> <li>providing inaccurate performance feedback</li> </ul>

Source: Queensland Audit Office, *Fraud risk management Report 6: 2017–18* (February 2018) page 54 (figure C2)

<sup>1</sup> Queensland Audit Office, *Fraud risk management Report 6: 2017-18* (February 2018) page 2