
Labor Substitution

The Scenario

During an incurred cost audit, the auditor requested employee timesheets to reconcile to labor distribution reports. The auditor noticed that the contractor had coded several employees to more than one labor category. The auditor also compared the signatures on the employee timesheets for numerous pay periods and noticed that several of the employees' timesheets contained different handwriting and signatures.

The auditor compared the contract requirements for labor categories and the position descriptions with the employees' qualifications. The auditor discovered that the contractor billed the Government for employees that were not qualified for the labor categories billed. For example, seven of the twelve computer technicians the contractor hired and assigned to the contract had no college education or experience in the computer field. The unqualified analysts included individuals with prior experience as a bus driver, a hair-care product salesperson, a former teacher's assistant, and the company president's high school-age son and daughter.

General Comments / Lessons Learned.

Labor substitution has become a common fraud scheme that harms the Government from both a cost and quality perspective. Auditors must remain alert for such schemes and should consider tests to detect this type of fraud when justified by the risks involved.

FRAUD INDICATORS

- **Employees classified in more than one labor category.**
- **Timesheet signed by the same employee with different signatures.**
- **Employees do not have the background, experience, or education specified in the contract requirements.**
- **Government billed for the work of fictitious employees such as close relatives of the contractor's management.**