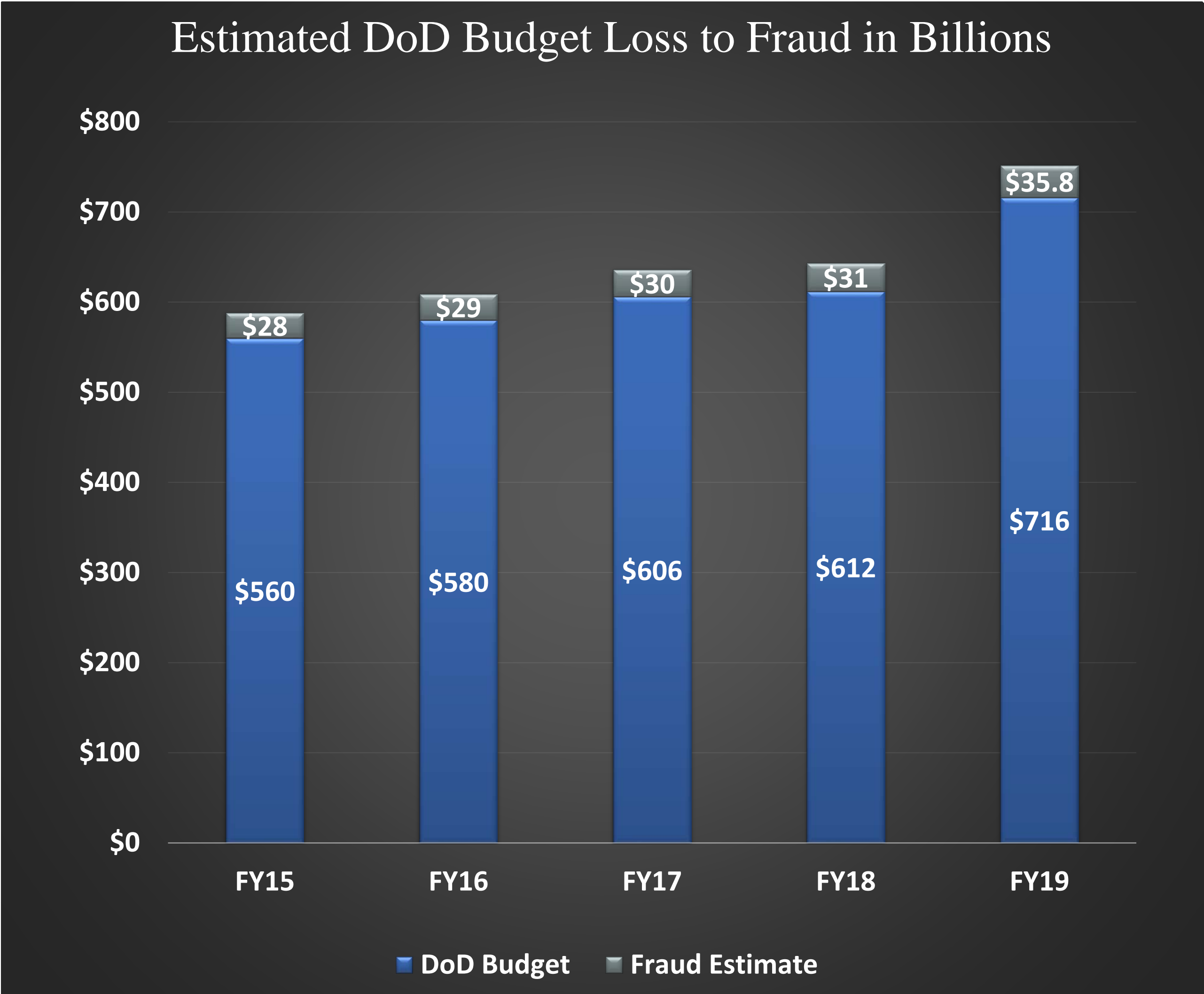


Abstract

The purpose of this research is to assess the relationship between fraud penalties levied by the Department of Justice (DOJ) against defense contractors (firms) that commit fraud against the Department of Defense (DOD) and the effect of those penalties on future fraud recidivism. Using hand-collected historical data related to fraud committed against the DOD, we find a total of 511 fraud cases and \$13.5 billion in fines between 1995 and 2018. An estimated regression model is used to analyze the relationship between fraud penalties and fraud occurrences. Multiple specifications of our model show little to no relationship between DOD- and DOJ-imposed fines and subsequent contractor fraud commission. Given the magnitude of resources deployed for setting and enforcing fines and penalties, the DOD should consider employing alternative tools to encourage compliance with procurement laws and discourage contractor fraud.

Methods and Research Summary

- Background of fraud schemes and review of academic fraud literature and theories.
- Description and Analysis of the current DOD Fraud Environment.
- Identified and Analyzed 23 years of data including: 96 contractors, 511 fraud occurrences, and \$13.5 billion in fraud fines.
- Compared DOD/DOJ policy that could affect government and contractor relationship and amount of fraud investigated/penalized.
- Regression Analysis to determine if Fraud Fines affected future fraudulent behavior



Results

Our analysis revealed insignificant and economically near zero coefficients from an effects standpoint, thus showing that fraud fines have no impact on the firm-fraud behavior of defense companies.

Recommendations

1. Use a **fraud-risk multiplier** effect to be applied to future contract activities with defense companies who historically present the greatest fraud risk

2. Creation of an **earned price reduction** on an immediate contract activity following an instance of fraud, similar to a coupon, that could be applied by the DOD.

3. DOD should create a **fraud-risk reduction plan** and impose it on defense firms that present the greatest fraud risk.