Overview of the Most Common and Costly Typologies of Corruption, Collusion and Fraud in Public Procurement:

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The basic categories of corruption and fraud

- Corruption
  - Bribes and kickbacks
  - Conflicts of interest
  - Illicit enrichment
- Bid rigging (to steer contracts to favored bidders)
  - Rigged specifications
  - Leaking of inside information , etc.
- Collusive bidding by Contractors (to inflate prices)
- Fraudulent claims and works
  - False statements and forged documents in bids and proposals
  - False and inflated invoices
  - Failure to meet contract specifications, product substitution

The typical three-stages of corruption and fraud

1. A BRIBE is demanded in exchange for the promise of a contract award or other favor, which leads to…
2. Some form of BID RIGGING by the corrupt official and contractor to exclude other (often more qualified, less expensive) bidders, and finally…
3. FRAUD, to recover the cost of the bribe and exploit the corrupt relationship.

Fraud is usually the most costly and damaging stage.

Corruption

- Bribes & kickbacks
- Conflict of interest
- Illicit enrichment

Bribes and kickbacks

Giving a “thing of value:”

- Gifts, travel and entertainment
- Sexual favors
- “Study tours”
- Rental of properties, etc.
- Cash payments
- Payments thru subs, local partners, consultants, etc.
- Hidden interests

To influence a contract award or execution:

S	selection
P	price
Q	quantity
Q	quality
D	delivery…and finally
F	fraud

Why are bribes paid in procurement?

- To be short listed
- For a contract award
- To expedite the payment of invoices
- For contract amendments and extensions
- **To influence inspectors** to accept sub-standard work or goods
- **To compromise auditors and NGOs**
- To avoid cancellation of the contract for poor performance

Corruption case example

Where the money ended up in the US…

Conflicts of interest

For example, a project or government official:

- Secretly owns a supplier or contractor, or
- Sets up a “shell company” through which he or she purchases supplies at an Inflated price, or
- Has an undisclosed interest in property purchases or leases, etc.

Front companies for procurement officials

Empty Lot

Rice Trader

Shop

Corruption red flags

- Complaints from losing bidders
- “SPQQD” factors
- Unjustified sole source awards
- Multiple awards just under procurement thresholds
- Pressure to select an unknown or unqualified contractor
- Pressure to select a particular subcontractor or agent
- Long delays in contract negotiations or award
- Involvement of unnecessary broker or questionable agent
- Undisclosed agent fees and commissions
- Questionable contract amendments and extensions
- Procurement staff live beyond their means

Bid rigging

- Change order abuse
- Excluding qualified bidders
- Leaking of bid information
- Manipulation of bids
- Rigged specifications
- Split purchases
- Unbalanced bidding
- Unjustified sole source awards

Bid rigging red flags

- Repeat [sole source] awards to the same bidders
- **Multiple awards just under thresholds (followed by change orders or contract extensions)**
- Bids just at or close to budget or estimate
- Narrow specifications
- Ambiguous specifications
- Unreasonable pre-qualification procedures
- Short or inadequate notice to bidders
- Fewer than the average or required number of bidders
- Low bid awards followed by change orders

Collusive bidding by contractors

People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices.

Adam Smith,

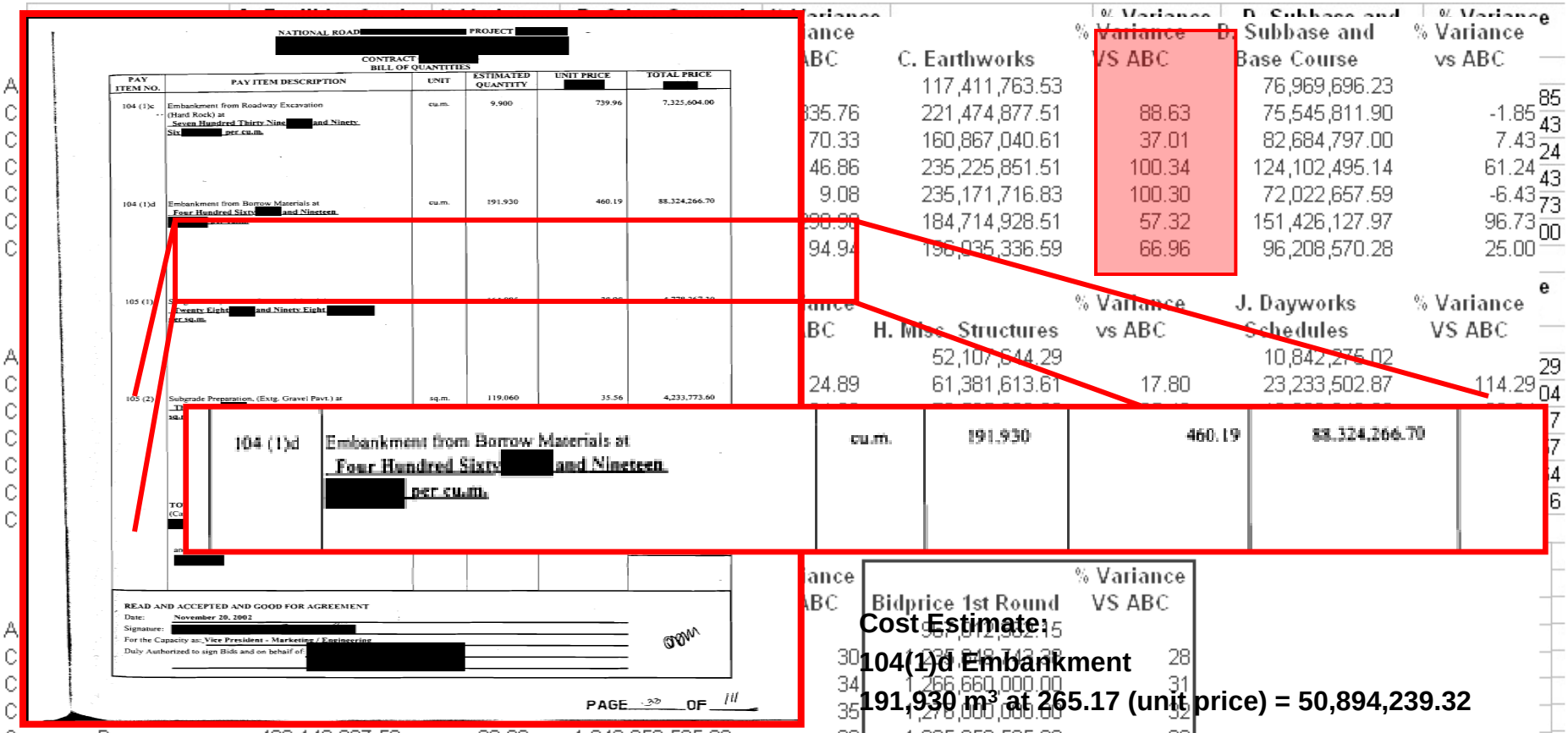
The Wealth of Nations,

1776

Executing collusive systems

- Complementary bids
- Bid rotation
- Market division
- Losing bidders become subcontractors
- Bid suppression

Collusive bidding: road project



Cost Estimate:

104(1)d Embankment

191,930 m³ at 265.17 (unit price) = 50,894,239.32

Indicators

1 percentage point steps variance from ABC

Bid price difference to the designated winner ascends in 10 mio CU steps

Strange and unnatural final bid price numbers

Companies B, C and F are disqualified

Severely overpriced earthworks component

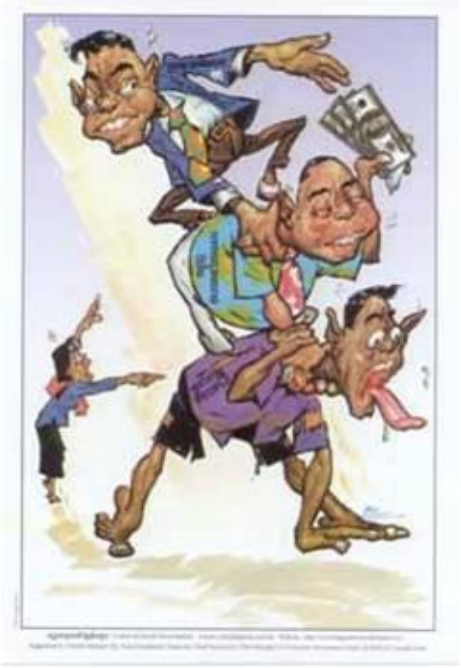
Evidence

Collusive bidding red flags

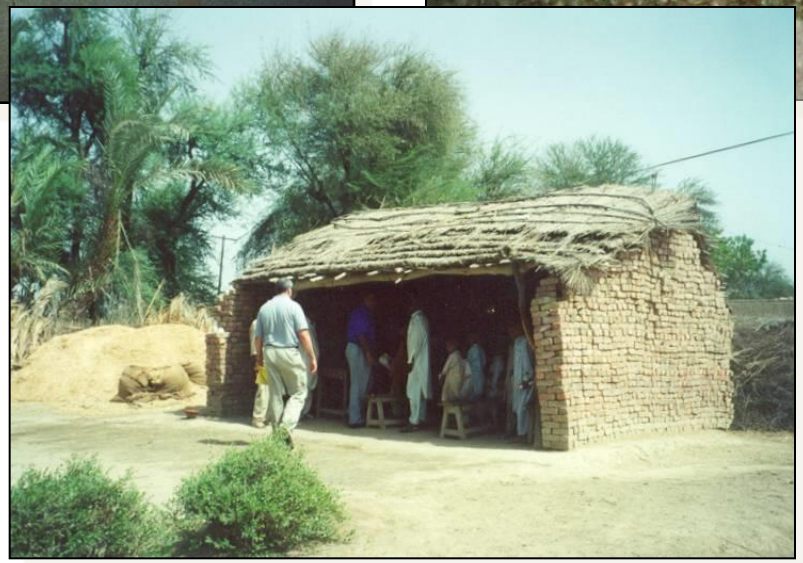
- Connections between bidders, e.g., common addresses, fax numbers or personnel; assignment of contract to losing bidder, etc.
- Persistent unexplained high prices
- Unusual bid patterns; e.g. bids an exact % apart
- Rotation of winning bidders
- Same bidders bid; new bidders excluded
- Losing bidders become subcontractors
- False or forged bid securities

Fraud

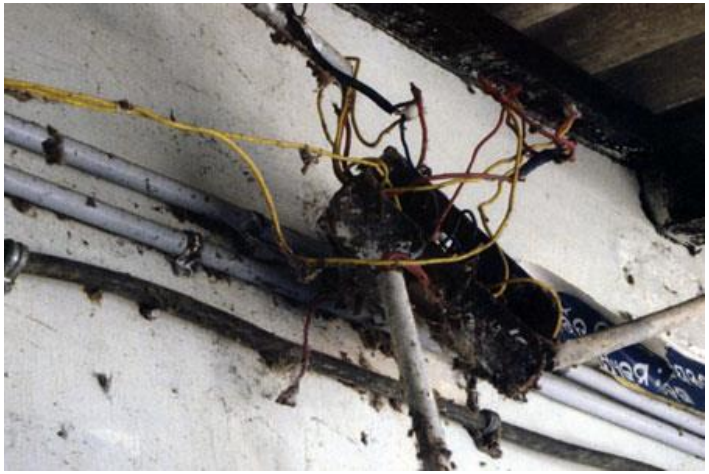
- Failure to meet contract specifications
- False, inflated and duplicate invoices
- False statements and claims
- Fictitious contractor
- Product substitution



Aid financed rural ‘school’



New aid financed hospital



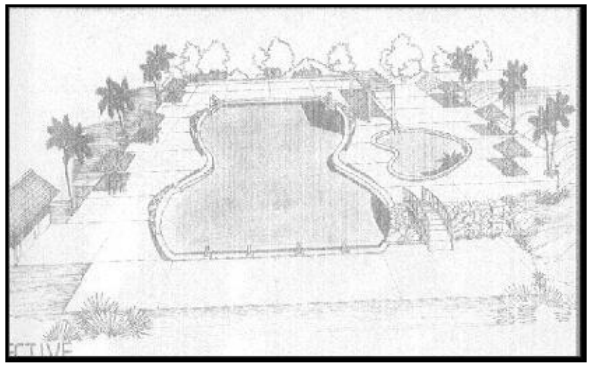
“New” hospital equipment

Narrow road

- Road 30% narrower than the specs required
- No road surfacing, contrary to the specifications
- The contract was paid in full

Construction and billing fraud

Design of spa for ecotourism center



Status after >50% disbursed with 30 days left to completion

Non-existent (but fully paid for) school in Iraq

Fraud red flags

- “Outliers,” “mismatches,” etc.
- Poor quality goods or works
- Missing or altered supporting documents
- Inconsistencies between contractor’s claims and inspections
- Culture of corruption of inspectors
- No costs booked by contractor for work claimed
- Complaints from users

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