



# DETECTING corruption, bid rigging, collusive bidding and fraud



# Detection methods



- Complaints
- Discovery of a “red flag”
- Due diligence background checks on bidders and other entities
- “Proactive,” automated fraud detection programs
- Voluntary Disclosure and Amnesty Programs





# Detection methods by schemes

- BRIBES are most readily detected by complaints and by inference from bid rigging schemes
- BID RIGGING can best be detected by complaints from losing bidders and careful examination of bidding documents
- COLLUSIVE BIDDING can most easily be detected by close examination of bids and bid patterns, the use of fraud detection software and complaints from excluded bidders
- FRAUD can best be detected by complaints from beneficiaries, close inspection of goods and works and by scrutinizing claims and supporting documents for discrepancies





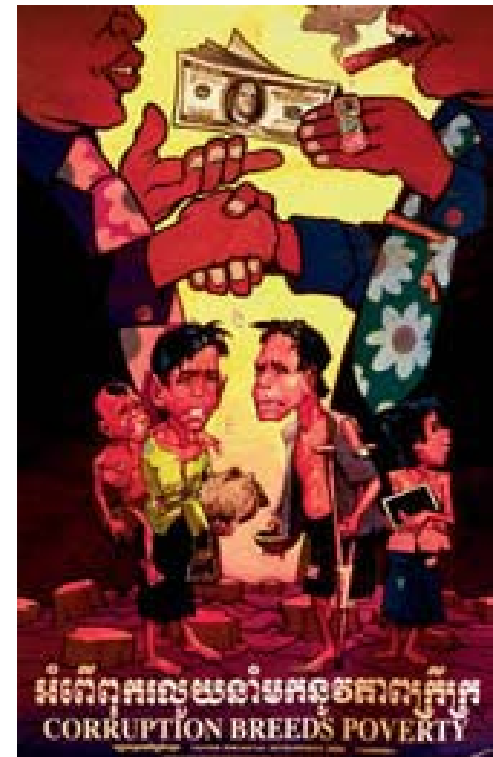
# Detection methods: COMPLAINTS

- Most serious corruption and fraud cases are detected by complaints and reports, so they should be treated seriously
- Encourage and facilitate complaints by:
  - Setting up confidential hotlines
  - Making “fraud awareness” presentations that explain how to report
  - Circulating confidential questionnaires to contractors
- Overcome the powerful disincentives to report (fear of reprisals, sense of futility, distrust of authorities) by promptly acknowledging and following up on reports and taking appropriate action



# Detection methods: RED FLAGS

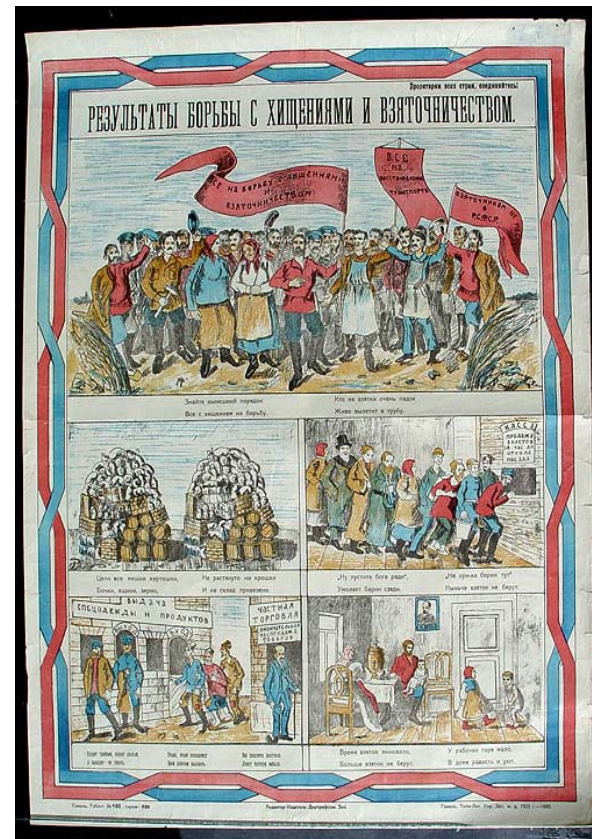
- Know the red flags for each scheme
- Look for a *pattern* of red flags rather than focusing on just one
- If a significant red flag or a pattern is found, carefully scrutinize the suspect transaction and call for additional tests, inspections or documents as needed
- Refer the matter to the appropriate office for further review or in-depth investigation



# Detection methods: DUE DILIGENCE background checks on bidders, etc.

Check the following sources of information for firms and individuals involved in your project:

- List of debarred or suspended firms
- Results of prior audits and investigations
- General information sources on the internet
- Media reports
- Compliance sites





# Sample sources of information for due diligence background checks

- Aid agency information
- General info sources
- Public and court records
- Media reports
- Business reports
- Address and photo sites
- Compliance sites
- Internal debarment lists
- [www.google.com](http://www.google.com)
- [www.LexisNexis.com](http://www.LexisNexis.com)
- [www.factiva.com](http://www.factiva.com)
- [www.dnb.com](http://www.dnb.com)
- [www.maps.google.com](http://www.maps.google.com)
- [www.rdc.com](http://www.rdc.com)



# “International corporate headquarters” located by simple online due diligence checks





# Detection methods: “PROACTIVE” fraud detection programs

- Internal procurement and contracting databases can be queried for red flags of corruption, bid rigging and fraud.
- Popular software and tools that can be used to find red flags, in addition to the popular **Microsoft Excel** and **Microsoft Access** programs, include:
  - **Excel + Active Data**      [www.informationactive.com](http://www.informationactive.com)
  - **ACL**      [www.acl.com](http://www.acl.com)
  - **Idea**      [www.audimation.com](http://www.audimation.com)
  - **Picalo**      [www.picalo.org](http://www.picalo.org)





# Sample proactive fraud detection tests for indicators of collusive bidding

- Sequential bid securities submitted by different bidders
- Rotation of winning bidders
- Losing bidders become subcontractors
- Unusual bid patterns, e.g.,
  - Fewer than 50% of the pre-qualified companies submit bids
  - Losing bids are identical, or an exact percentage apart, etc.
  - Line item bids are too high



# Detection methods: Voluntary Disclosure Programs



Under a Voluntary Disclosure Program, participants are promised immunity from administrative, civil and criminal sanctions if they voluntarily disclose wrongdoing and implement a compliance program, among other requirements.

