

8. Changes in contract terms and value

Unjustified changes in contract terms and value

A change to the initial contract in the amount or type of services, and/or an increase in price from what was bid before the contract is signed, should be reviewed carefully. Profits can be generated by unjustifiably increasing the price and/or quantity of the services between the time the contractor is selected and the signing of the contract through a change in scope, (participation of) key personnel, manufacturing unit rates, or the General Conditions of Contract (GCC). In addition, once the contract is implemented, the contractor could substitute services by those of lesser value, quality and/or not use the agreed man hours.



9. Multiple contract change orders

After the contract has been signed and during implementation, change orders are often proposed. While there are circumstances in which changes are legitimate, there are also circumstances where the client and contractor collude :

- To increase the value of the contract without actual delivery of any new products/services;
- To bid low for short-term award intending to get more lucrative, long-term award (e.g. rider to the short-term

10. Delivery Poor quality works / services

- Goods/services are of low quality or not delivered (missing or defective materials could indicate that, in exchange for bribes/kickbacks, defective materials were accepted);
- Invoices submitted are substantially higher than initial quoted price;
- To deliver less works/goods/services than specified (e.g. related to quantities, but also for instance to experts hired who are less qualified than expected);
- To deliver lower-quality works/goods/services than specified (e.g. counterfeited goods, false origin...)

Some TIPS

- To check performance/deliveries on a sample basis (random or targeted check)
- To contact losing bidder to check authenticity of his offer
- To hire technical experts to sustain the performance aspect of the control (to avoid only financial control)
- To control the calculations of the winning offer before awarding contract
- To identify ownership of company check legal and capacity (experience) of the winning bidder
- To check vendor reputation (quality of delivery, personal connections with staff, Court cases...)
- To check authenticity and validity of Bank warranties, test or quality assurance certificates
- To check existence of documentation explaining history of procurement exercise (list of firms invited to bid, letters, technical or financial proposals or other essential documents)
- To check separation of duties (e.g. to avoid that the same person is responsible for all stages of procurement and contract implementation)



MOST COMMON RED FLAGS OF FRAUD & CORRUPTION IN PROCUREMENT

1. Complaints from informant or bidder

Any complaint is a vital source of information about fraud and corruption in EU financed projects. Many complaints, while not mentioning the words fraud and corruption, often lead to the discovery of such misconduct.

Types of corruption/manipulation

- Collusion between vendor(s) and procurement agent
- Collusion between vendors
- Corruption through vendor-intermediary

2. Multiple contracts below procurement thresholds

Often in corruption or fraudulent schemes the perpetrators endeavour to avoid higher level review or competitive bidding. To this effect, they often :

- tailor a contract to fall just under the procurement threshold, or
- split the requisitions to keep contract value below review.

Sources

OLAF's External Aid Unit
The World Bank Group - Integrity Vice Presidency
UN-OIOS Procurement Task Force
Edition May 2009

3. Unusual bid, tender procedure patterns

- Bids are distinct from one another by a systemic percentage, i.e., 1%, 3%, 10% (check bid evaluation report (BER))
- Bids are inexplicably too close or too far apart, i.e., less than 1% or more than 10% between the lowest bid and the subsequent lowest bid, (check BER)
- Losing bid prices are in round or unnatural numbers, e.g. 355.000 € or 65.888 € (check BER)
- Unexplained inflated bid prices, i.e. total bid or components of the bid are unjustifiably higher than the cost estimates (check BER)
- Losing bidders become subcontractors (check bids)
- Apparent rotation of winning bidders
- Delays in completing the BER or contract award and signing may indicate negotiation of corrupt terms
- Repeated extension of bid security
- Repetitive technical evaluations
- Hand-corrections or intentional mathematical errors
- Altering terms of reference in favour of one vendor
- Alteration or amendment of requirements following bid closing to favour vendor
- Unnecessary procurements
- Multiple submissions from same bidder
- Shortened time-span for bidding process (e.g. request on a Friday for a bid to be sent on the following Monday)
- The designated winner faxed the bids for all bidders from a single fax machine.
- Bidders that have identical last names, addresses, fax, telephone numbers
- Use of the same type face or letter print styles, the same spelling mistakes, etc.
- Absence of internal estimate of contract value (minimum/maximum)
- Number of bidders shortlisted is very low
- Absence of declaration of honour (conflict of interest)

4. Seemingly inflated agent fees

Seemingly inflated fees of agents or prices of goods

Fees can be used to disguise corrupt payments. These fees often take the form of the involvement of an unnecessary middleman (otherwise known as broker, agent or facilitator). Investigators have found two scenarios which occur in EU projects:

- An international contractor hires a local agent to « assist » with the bid preparation and contract negotiations. The fee paid to the local agent is non-distinct and/or itemised and often used to pay the agreed bribes
- A procurement unit places an order for office equipment with a middleman at a certain price per computer. The broker buys the equipment from a local firm for a much lower price per computer (or buys even cheaper substitutes) and shares the profit with the procurement personnel.

5. Suspicious bidder

Bidder is not a legitimate entity

Some bidders are linked (subsidiaries, affiliates of shell companies: firms that are set up as a front for illegal activities). Do some due diligence by searching the telephone directory, checking the winning bidder's website, etc... to establish whether the company is a legitimate entity. The following may be at play:

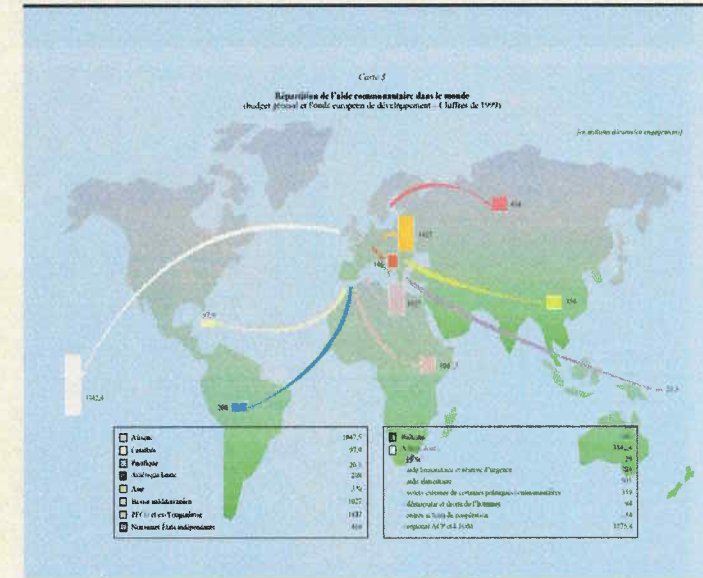
- Unscrupulous persons have set up a fictitious company/consulting firm to obtain contracts
- Project personnel have set up a fictitious contractor to submit false invoices.
- A « shadow bidder » has submitted higher priced bids to facilitate the selection of the designated winner and to give the appearance of competition.

These fictitious companies, also called front or shell companies, have no substantial assets or permanent business facilities; often they are not registered or listed in business or telephone directories

6. Lowest bidder not selected

Lowest evaluated bid is unjustifiably declared ineligible

This red flag can indicate bid rigging. Project officials with a hidden interest in a contractor, or expecting to receive kickbacks from a contractor (sometimes on behalf of other government officials) often pressure Bid Evaluation Committee members to declare the lowest evaluated bid(s) unresponsive, thereby allowing the award of the contract to their preferred contractor, who often offers a much higher price and/or is only marginally better qualified.



7. Repeat awards to same contractor

Unjustified and/or repeated sole source awards. One vendor seems to win numerous bidding exercises.

Requests for an exception to the approved procurement plan to allow for the awarding of contracts to a single bidder should be closely reviewed. Often, these requests are made for so-called reasons of 'urgency'. The contracts being sought are awarded on the basis of false justifications or they are split into multiple contracts, in order to bring their value under procurement thresholds.