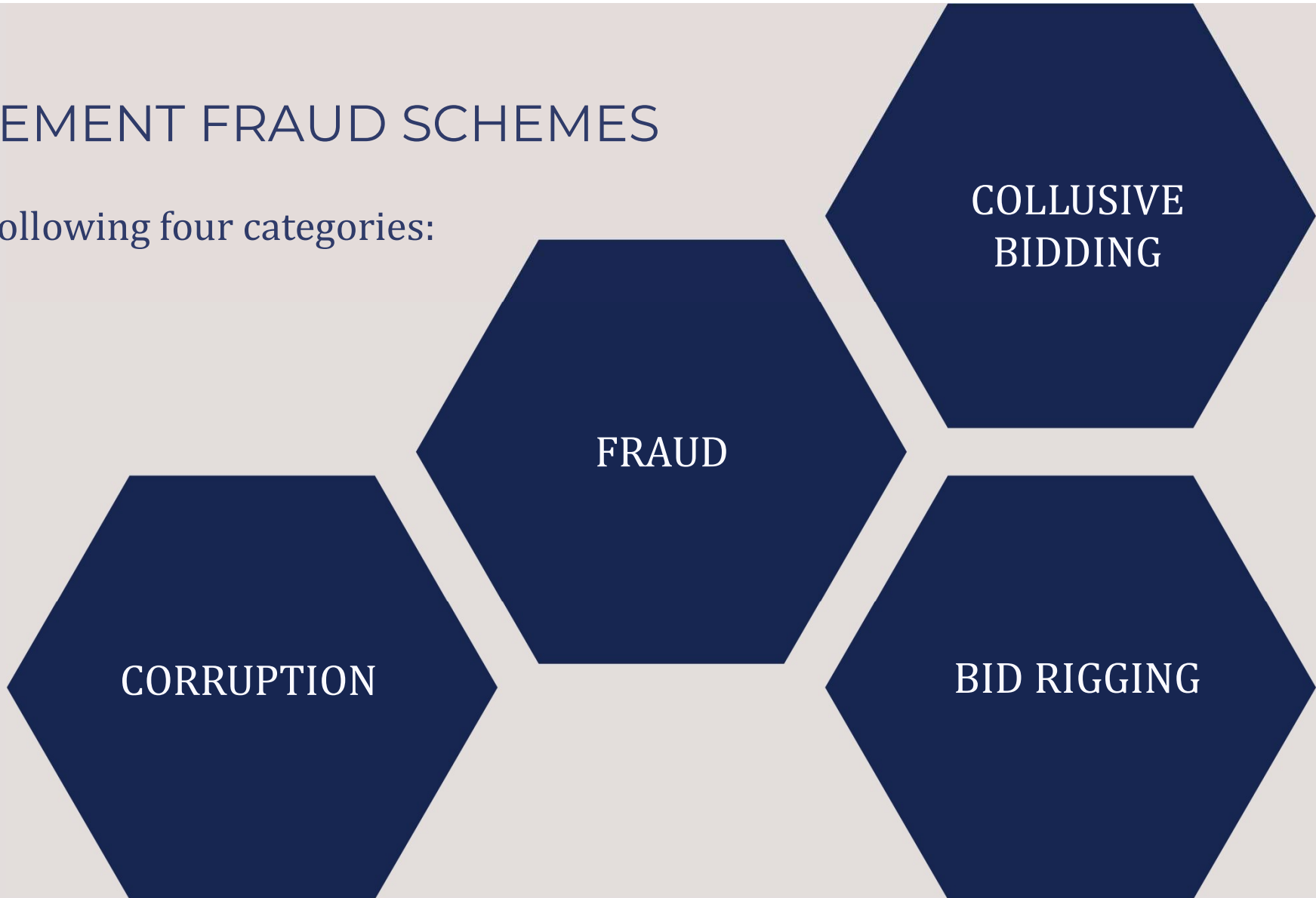


PROCUREMENT FRAUD SCHEMES

Fall into the following four categories:



CORRUPTION

FRAUD

BID RIGGING

COLLUSIVE
BIDDING

CORRUPTION

Bribes&Kickbacks

The giving or receiving of a thing of value to improperly influence a contract award or other action.

Conflict of Interests

Refers to undisclosed financial interests in contractors and consultants by project and government officials.





BID RIGGING

Refers to various schemes by project officials to rig the selection process to ensure that a favored bidder wins and to exclude competitors. As such, bid rigging is a red flag of corruption and circumstantial evidence of corrupt influence.

Excluding qualified bidders

Unbalanced bidding

Leaking of bid information

Failure to meet contract specifications

Manipulation of bids

Change order abuse

Rigged specifications

Product substitution

Split purchases

Unjustified sole source awards

COLLUSIVE BIDDING

Refers to agreements among bidders to submit artificially high priced bids and otherwise defeat competition.

Bid Suppression

Complementary Bidding

Bid Rotation

Customer or Market Allocation



BID SUPPRESSION: In this scheme, one or more competitors agree not to bid or withdraw a previously submitted bid so that a designated bidder will win. In return, the non-bidder may receive a subcontract or payoff.

COMPLEMENTARY BID: In this scheme, co-conspirators submit token bids that are intentionally high or fail to meet all of the bid requirements to lose a contract. "Comp bids" are designed to give the appearance of competition.

BID ROTATION: In bid rotation, all co-conspirators submit bids but take turns being the low bidder on a series of contracts by agreement.

CUSTOMER OR MARKET ALLOCATION: Co-conspirators agree to divide up customers or geographic areas in this scheme. The result is that the co-conspirators will not bid or will submit only complimentary bids when a solicitation for proposals is made by a customer or in an area not assigned to them. This scheme is most commonly found in the service sector and may involve quoted prices for services instead of bids.

FRAUD

Includes, among other offenses, knowing and willful misrepresentations, the willful omission of material facts, the forgery of signatures or documents, the failure to meet contract specifications and fraudulent billings.

- Conflicts of interest
- Phantom vendor
- Split purchase orders/split orders
- Kickbacks
- Personal purchases
- Duplicate payments
- Defective products
- Product substitution
- Fictitious invoices



RED FLAGS

Unusual or unauthorized vendors

Large gifts and entertainment expenses

Unusual increase in vendor spending

Round-dollar amounts

Copies of supporting documentation in lieu of originals

Duplicate payments

Excessive Change Orders

Unjustified Sole Source

Identical Work Orders

Few bidders in a crowded market

Repeat use of poorly performing contractor

Tips and complaints



INVESTIGATIVE STEPS

CASE THEORY

Analyze the available data – the details of the allegations.

Creates a simple, initial hypothesis or theory



Case Theory approach is simply an investigative tool to generate a hypothesis that can organize and direct an investigation, based on the information available at the time.

Makes assumptions which can be used to test the theory – e.g., if the allegations are true, official A would be expected to:
Favor Company B in buying decisions

Bend or break the rules to award contract to Company B

Display sudden new wealth or have unexplained income

The Investigator uses his hypothesis to organize the investigation, i.e., looks for evidence to confirm or rebut the theory (initially, this evidence is often the “red flags” of the suspected offense.)





THE COMPLAINT

Specifications appear too stringent

2015

Pile: The pile yarn shall be 100% pure virgin wool.

Backing: The backing shall be at least 1/8 inch thick foam padding and shall have a weight of at least 38 ounces per square yard.

Carpet shall be level loop pile, four ply wool, having a synthetic back and a face weight of at least 56.25 ounces per square yard, not including bonding and padding.

The carpet shall be woven through the back and shall be bonded to the padding over its entire area, when padding is required.

The carpet shall have a pile height of 0.205 inches, a stitch rate of 10 rows per inch, and a 216 pitch.

All edges shall be latex sealed to prevent unraveling. Other methods may be used subject to the Authority's approval.

The color and pattern of the carpet item shall be same as the samples provided by WMATA. The color of the carpet is red/white/blue with speckled-stripe.

The pile yarn shall be permanently mothproofed in accordance with ASTM Specification D1116. The carpet shall be processed to prevent the growth of mildew and other fungi.



Learn the elements of proof for the suspected offenses.

Memorize the elements of proof for each of the suspected offenses, based on your theory of the case, and use them to organize the investigation and test the sufficiency of the evidence.

An investigator should know at every stage of the case what evidence he needs to obtain to prove an offense.

Administrative – Mistake and not amounting to gross negligence or criminal act

Civil - Failure to perform or act appropriately – gross negligence

Criminal Act – Intentional commission of a crime

Begin the INTERNAL investigation

Conduct due diligence background checks

Complete the collection of documents, data and interviews within the investigating organization





Identify the Contract and or Grant

Fixed Price

Cost Reimbursement

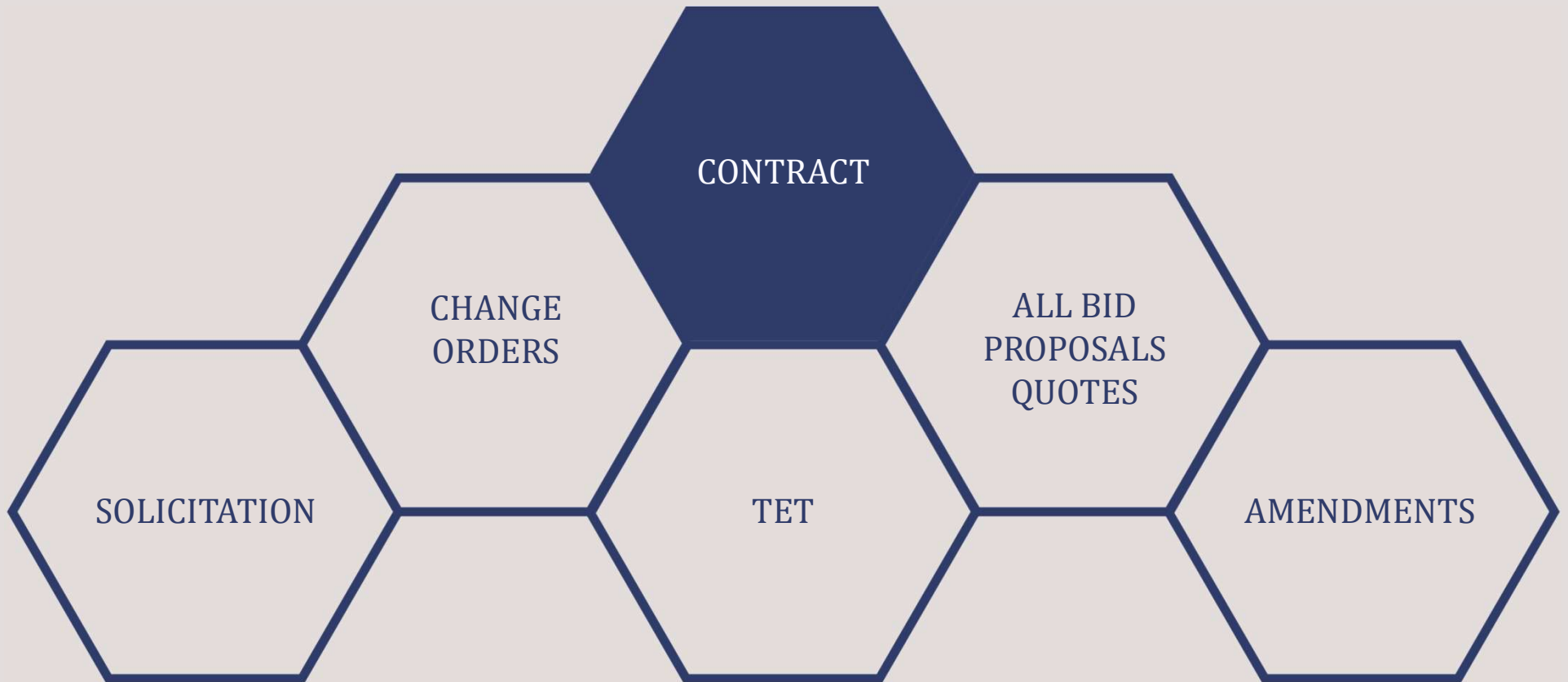
Time and Material Labor Hours

Sole Source

✦ Is there federal grant money involved?



Obtain the PROCUREMENT FILE



Complete the collection of documents, data and interviews within the investigating organization

Carefully examine bids and proposals, CVs and other documents submitted by a suspect firm for possible fraudulent representations

“SPQQD” factors – Selection, Pricing, Quantity, Quality and Delivery

Samples and Test Reports

Representations and Certifications

Certificate of Insurance

Access, with the proper authority, the relevant e-mail and computer hard drive information

Relevant standard operating procedures, policies, regulations, laws, organizational structure

Background checks

Identify the Players

Check on-line and other records on the suspect firms and individuals to evaluate the allegations and to look for other evidence of fraud or corruption, such as the presence of shell companies as subcontractors, prior debarments of a contractor or evidence that a project official is living beyond his means.



RUDY



Program Manager for
WMATA Car Maintenance
(CMNT)

Worked for WMATA for
27 years

Created Specifications

72 years old

Financials look clean

Downsized home but
does not own

Divorced in 2010

EARL



Rocky Face Flooring
Rocky Face, Georgia

Awarded carpet contract
for the past 15 years

Resident of Georgia past
25 years

Been in the carpet
business for over 20 years

64 years old

Married with adult
children

Business registered to a
residential address most
years and a commercial
address (off and on)

IN ORDER TO ENSURE THAT YOUR PROPOSAL COMPLIES WITH THE AUTHORITY'S PROCUREMENT REGULATIONS AND THAT IT WILL BE ACCEPTABLE TO THE AUTHORITY, THE FOLLOWING FORMS MUST BE COMPLETED & SUBMITTED AS SPECIFIED BELOW WITH YOUR OFFER:

VOLUME I

- o PRICE PROPOSAL (Must be signed, see page 10)
- o SOLICITATION, OFFER & AWARD FORM (Must be signed, see page 7)

VOLUME II

- o TECHNICAL PROPOSAL
- o SAMPLES and TEST REPORTS
- o COMPLIANCE MATRIX (Must be signed, see attachment)

VOLUME III

- o ACKNOWLEDGMENT OF AMENDMENTS (If any)
- o SIGNED REPRESENTATIONS AND CERTIFICATIONS
- o PRE-AWARD DATA
- o CERTIFICATE OF INSURANCE





Other bids...



Begin the EXTERNAL investigation

Conduct interviews of witnesses outside the investigating organization, proceeding from the disinterested, cooperative witnesses to “facilitators” to co-conspirators to the subjects.

Request or compel documents from third parties and the suspect contractors.

Exercise of contract audit rights.

If available with law enforcement assistance, subpoenas or search warrants.



SAMPLE
TEST
REPORTS

Judson Lee
Lab Director





Tricia Lee
Financier



INVESTIGATIVE TIP

USE A TIMELINE/CHRONOLOGY

Putting the essential facts in the order they occurred – is always helpful, particularly to prove knowledge and intent and to see how a case unfolds.

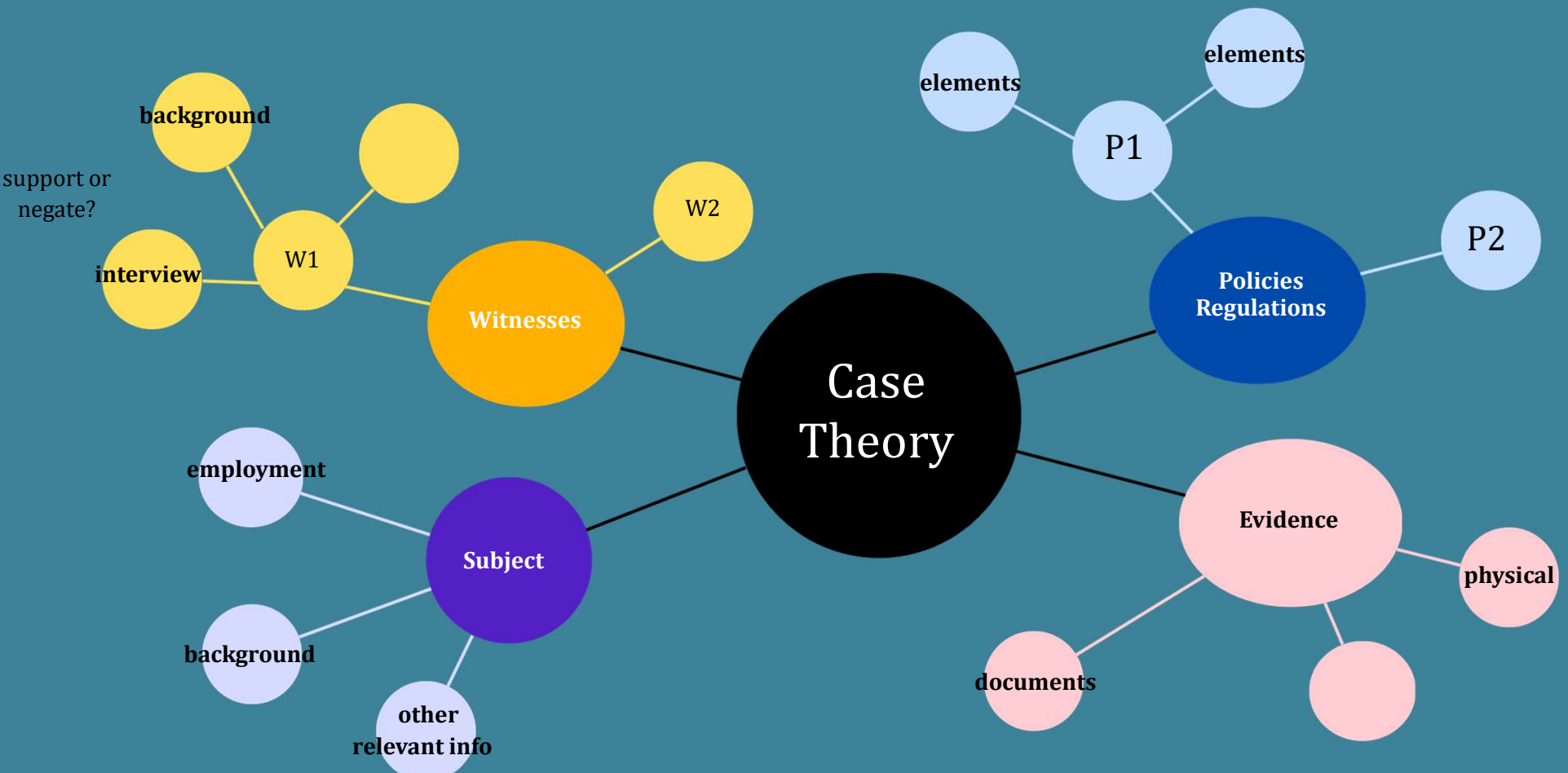
Concisely record the date, the event or document, and the source of information in separate columns. Include important meetings, telephone calls, email communications, travel, key documents, and other potentially important events.

Keep the chronology simple and focused on potentially relevant evidence – too much extraneous information will reduce its utility – and review and update it regularly.

Add new information as the investigation proceeds and remove what is shown to be irrelevant.

INVESTIGATIVE TIP

MINDMAPS




*add only relevant info to your mind map



Prove Illicit Payments

Determine the best strategy to prove illicit payments: out from the point of payment (by examining the contractor's records), or back from the point of receipt (from the suspect employee's records) and begin the tracing process.

If it is impossible to prove the corrupt payments directly, try to prove them circumstantially by showing the subject displayed unexplained sudden wealth or expenditures.



Obtain the cooperation of an inside witness (if possible)

This could be an honest inside observer or a lesser participant in the offense, such as a middleman or the smaller of several bribe payers.

Decide the best strategy to obtain their cooperation.



Interview the primary subject

In a corruption case, conduct a thorough interview of the primary subject, usually the suspected bribe recipient.

Ask about their role in the suspect contract award and relevant financial issues, such as their sources of income and expenditures.

Please decide if there is enough evidence to obtain a confession; if not, try to get helpful admissions and identify possible defenses (different objectives require different tactics).

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Independent Lab Results





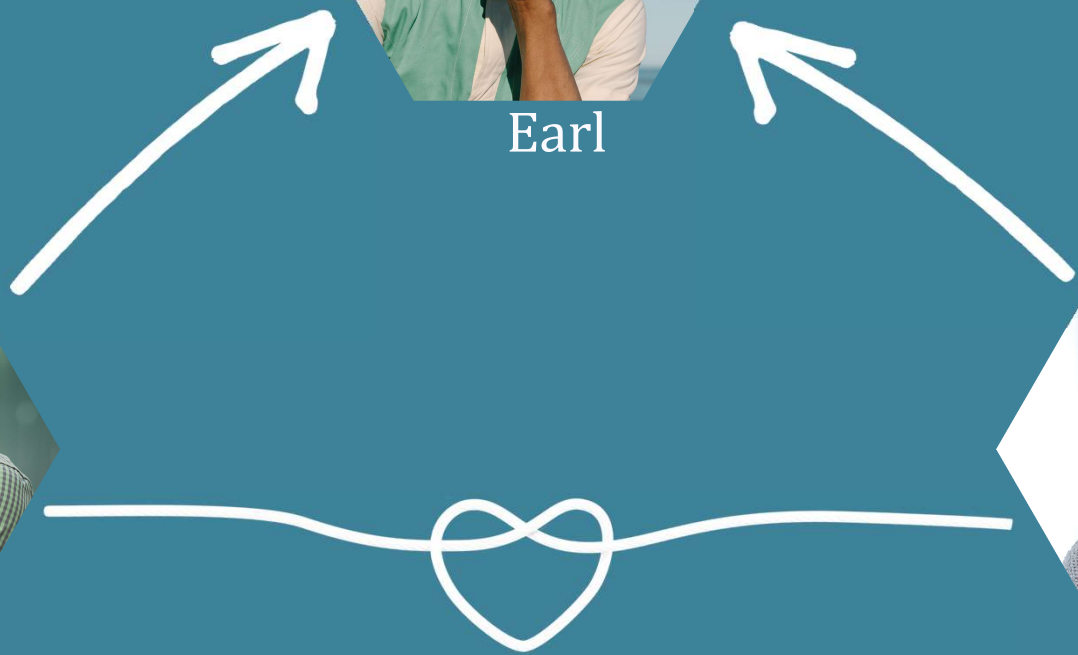
Earl




Judson Lee
Lab Director



Tricia Lee
Financier





Unlike crimes against persons and property,
which are clear
from the beginning what the crime is,
procurement fraud is not so clear.

What was the true scheme?

MINORITY BUSINESS ENTERPRISE



M/W/DBE PROGRAM GOALS

Promote diversity

Level playing field

The promotion of equal business opportunities in its contracting process by supporting full and equitable participation of firms owned and controlled by minorities and women in the provision of goods and services to the government entity.

CERTIFICATION

Owner must be a member of a disadvantaged group

Must own 51% of company

Personal net worth

Real, substantial and continuing control



Commercially Useful Function

A MBE or WBE performs a commercially useful function when it is responsible for the execution of the work by actual:

- Performance
- Management
- Supervision

If a MBE or WBE does not perform or exercise responsibility for at least 90% of the total cost of the contract with its own work force, it is presumed that the MBE or WBE is not performing a commercially useful function

The amount of work subcontracted;

- Industry practices
- Whether the amount the firm is to be paid under the contract is commensurate with the work it is actually performing
- Other relevant factors

THE MBE OR WBE MUST
BE RESPONSIBLE FOR:



TYPES OF CASES



M/W/DBE Pass Through

Fraudulent Invoices

Embezzlement

Kickbacks, Bribery

Manipulated Bids

Conflict of Interest

False statement in the bid

False claims through double billing

- Work outside MBE's experience or expertise
- Volume of work beyond MBE's capacity
- Equipment used by MBE belong to prime, no lease agreement, identity markings
- Materials delivered to, billed to, paid by another business
- MBE subcontracts more than 50% of work
- Listed contact person unknown by subcontractor
- MBE "owner" is former employee of non-MBE company
- MBE with no facilities, equipment or workers
- MBE owner never at site

ENFORCEMENT

Criminal

Civil

Suspension/Debarment

Personnel Actions



CONTACT

Yvonne K. Brooks
Deputy Inspector General

Maryland Office of the Inspector
General for Education
100 Community Place
Crownsville, MD 21032

Office: (410) 697-9474

Cell: (443) 418-6797

Yvonne.Brooks@maryland.gov

