



Dealing with Procurement Fraud

PRESENTED BY

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Procurement fraud

Definitions

Fraud

Fraud is generally defined in the law as an intentional misrepresentation of a material existing fact made by one person to another with knowledge of its falsity and for the purpose of inducing the other person to act, and upon which the other person relies with resulting injury or damage.

Fraud may also be made by an omission or purposeful failure to state material facts, which nondisclosure makes other statements misleading.

Procurement

Procurement refers to those processes, procedures and entities involved in the purchase of goods and services by public and private entities.

Procurement methods

Restricted Tendering

Direct procurement

request for proposal

Request for quotations

specially permitted procurement procedure.

Phases in the procurement process

Phases of procurement using open tendering

Procurement process that employ competitive bidding can be reduced to four phases;

1. Presolicitation phase
2. Solicitation phase
3. Bid evaluation and award phase
4. Post-award and administration phase

Presolicitation phase - frauds

1. Need recognition
2. Bid tailoring
 - Narrow specifications
 - Broad specifications
 - Vague specifications
3. Bid splitting
4. Unjustified method of procurement
5. Change order abuse

Solicitation phase-frauds

1. Bid manipulation
2. Leaking bid data
3. Collusion among contractors
 - Complementary bids
 - Bid rotation
 - Bid suppression
 - Market division
4. Defective pricing schemes
 - Inflating costs

Bid evaluation and award - frauds

Bid manipulation

Leaking data

Compromising evaluators

Post-award and administration phase

1. Non conforming goods or services
2. Change order abuse
3. Cost mischarging
 - Accounting mischarges
 - Labour cost mischarges
 - Material mischarges

Categories of procurement fraud schemes

Collusion among contractors

Competitors in the same market collude to defeat competition or inflate prices. The schemes are;

Complementary bidding

This is also known as protective, shadow or cover bidding. Competitors submit token bids that are not serious to win a tender. The tricks involved are;

- Bids that are too high to be accepted.
- Competitive prices but intentional poor technical bids
- Bids with special terms that are not acceptable with the buyer.

Bid rotation

This is also known as bid pooling. Two or more suppliers conspire to rotate the bid among themselves. Bid winners also award subcontracts to losing bidders.

Market Division

Competitors divide the market according to geographic region or customers. Competing firms will not bid against each other in those regions.

Red flags of Collusion

1. Industry has limited competition
2. The same contractors' bid each product or project
3. The winning bid appears too high
4. Qualified contractors do not submit bids
5. Winning contractors submits bids to losing bidders
6. When a new competitor enters the competition bid prices fall drastically
7. The last party to bid wins the contract
8. Bids that look similar on paper, font, colour, spelling mistakes, printing etc.
9. Rotational pattern of winning bids

Collusion between contractors' and employees

The perpetrated schemes depends with the employees influence. The more power a person has on the bidding process the more likely he can influence the tender award. Procurement scheme included are;

- Need recognition
- Bid tailoring
- Bid manipulation
- Leaking bid data
- Bid splitting
- Unjustified sole source awards or other noncompetitive methods of procuring

Red flags of need recognition

An employee convinces his employer of a need to procure excessive good or services. Purchasing entity employee receives a bribe or a kickback. Red flags are;

- Materials not procured at the optimal reorder level
- Huge write offs as scrap or obsoletes
- Need that can only be met by a certain manufacturer or supplier
- Failure to develop a list of back-up suppliers
- A certain employee life style
- Multiple purchase that fall below the legal threshold are present
- Purchases with missing GRNs and other receiving reports

Bid tailoring red flags

1. Bids tailored to meet specifications of a particular supplier.
2. Unreasonably narrow or broad specification.
3. No clear bid submission information.
4. Specification done together with supplier

Why is it difficult to detect procurement fraud?

Procurement fraud is committed by employees who understand the procurement very well. It usually involves an insider and a supplier

- Signing off duplicate or inflated invoices and taking a cut
- Accepting goods below the required standards
- Purchasing goods for personal use
- Related-party transactions
- “Commission” payments and bribery
- Conflict of interest

How corruption influences the procurement process

Contracts involve a purchaser and a seller. Each has many ways of corrupting the procurement process at any stage. Suppliers can;

- ▶ Collude to fix bid prices;
- ▶ Promote discriminatory technical standards;
- ▶ Interfere improperly in the work of evaluators; and
- ▶ Offer bribes.

Corruption Influences On The Procurement Process

Before contracts are awarded, the purchaser can:

- Tailor specifications to favour particular suppliers;
- Restrict information about contracting opportunities;
- Claim urgency as an excuse to award to a single contractor without competition;
- Breach the confidentiality of supplier offers;
- Disqualify potential suppliers through improper prequalification; and
- Take bribes.

Minimizing Procurement Fraud

1. Installing a whistle blowing system

Fraud Detection Tools-2

Fraud assessment questionnaires

Mandatory leave

- Every employee should go on leave every year, internal frauds require manual intervention and are therefore discovered when the perpetrator is away on vacation

Job rotations

Surprise audits

Most audits are conducted at a time when employees are aware they will happen thus they have time to alter documents

Management oversight

- Management should be trained to be observant of employees lifestyle changes e.g. extravagant vacations, expensive cars, expensive clothing, new or remodelled buildings, expensive recreational property, expensive jewellery etc.

Fraud Detection Tools

Whistle Blower Policy and Hotlines

An effective hotline should be managed by a third party independent of the organisation. Employees should be trained on whistle blowing.

Disciplinary Action

An opportunity to commit fraud is psychologically more acceptable when employees believe fraud goes undetected and unreported.

Questions

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Thankyou



Services Offered

Internal audit

Fraud Risk Assessment

Forensic Investigations

Fraud Training & Awareness Programs

Anti-money Laundering

Pre-employment Integrity interviews

Loss Prevention Consulting

Dispute Advisory

Due Diligence Investigations

Background Screenings

Unclaimed Financial Assets compliance and reporting audits

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