

# Contract and Procurement Fraud

*Collusion Between Contractors  
and Employees*

# Introduction

- Types of schemes involving collusion between contractors and procurement employees:
  - Need recognition schemes
  - Bid-tailoring schemes
  - Bid manipulation schemes
  - Unbalanced bidding
  - Leaking bid data

# Need Recognition Schemes

- Employee convinces his employer to purchase unneeded products or services
  - Typically in exchange for a bribe
- Types of need recognition schemes:
  - Unnecessary purchases
  - Excessive purchases

# Preventing Need Recognition Schemes

- Do not allow the same employee to originate purchases and approve them.
- Establish purchasing limits for each employee.
- Establish procedures to check for deliveries of company-ordered goods to external addresses.

# Red Flags of Need Recognition Schemes

- Unreasonably high inventory levels
- Items, parts, and services continually obtained from a single source
- No list of backup suppliers for items purchased from a single source
- Estimates not prepared or prepared after solicitations are requested

# Red Flags of Need Recognition Schemes

- Multiple purchases that fall below the threshold limit
- Purchases lacking a receiving report
- Employee displays sudden wealth, pays down debts, or lives beyond his means
- Employee has an outside business

# Detecting Need Recognition Schemes

- Examine and note any red flags in:
  - Purchase orders
  - Invoices
  - Inventory records
  - Usage records
  - Maintenance records
  - Return, repair, replacement, and scrap records

# Detecting Need Recognition Schemes

- Search for unexplained or unusual increases in purchases.
- Review amounts, types, and timing of purchases.
  - By purchasing employee or unit
  - In comparison with previous purchases or industry averages
- Examine items written off as excess and sold as scrap.



# Detecting Need Recognition Schemes

- Identify vendor SIC Codes and note vendors whose products or services appear suitable for personal use or resale or are inappropriate for the purchasing organization.

# Bid-Tailoring Schemes

- Employee manipulates bid specifications to give unfair advantage to one specific contractor
- Three methods:
  - Drafting narrow specifications
  - Drafting broad specifications
  - Drafting vague specifications

# Red Flags of Bid-Tailoring Schemes

- Weak controls over the bidding procedures
- Only one or a few bidders respond to bid requests
- Contract is not re-bid even though fewer than the minimum number of bids are received
- Similarity between specifications and winning contractor's product or services

# Red Flags of Bid-Tailoring Schemes

- Winning contractor involved in designing the project or drafting the specifications
- Competing contractors complain
- Unreasonably narrow or broad specifications
- Unexplained changes in specifications from prior RFPs for similar items
- High number of competitive awards to one supplier

# Red Flags of Bid-Tailoring Schemes

- Personal contact between contracting personnel and bidders
- Request defined by using brand name rather than generic description
- High number of change orders
- Requests for bid submissions lack clear bid submission information (e.g., time, place, manner of submitting bids)

# Detecting Bid-Tailoring Schemes

- Examine procurement records for any red flags.
  - Contract specifications
  - Requests for proposals
  - Bids
  - Contract award documents
  - Change orders for the relevant period
  - List of approved contractors

# Detecting Bid-Tailoring Schemes

- Review documents to determine:
  - Validity of requirements and specifications
  - Adequacy of consideration given to alternate products, features, processes, etc.
- Review documents and interview contracting personnel to determine:
  - If all bids were properly considered
  - If the winning bidder helped draft specifications

# Detecting Bid-Tailoring Schemes

- Compare specifications to previous specs for similar product or services.
- Compare specifications to winner's product or service and note if specs seemed tailored.
- Determine and note any qualified contractors that did not bid.
- Review email, travel, and telephone records of contracting personnel or contractors to determine if parties communicated during the bidding period.



# Bid Manipulation

- Employee manipulates the bidding process to benefit a favored contractor or supplier
  - Inappropriately accepts late bids
  - Alters received bids
  - Extends bid opening dates without justification
  - Opens bids prematurely
  - Re-bids work
  - Disqualifies bids or contractors for improper reasons
  - Falsifies the bid log

# Preventing Bid Manipulation

- Implement and enforce targeted controls.
  - Require sealed bids
  - Hold public bid openings
  - Publish amounts and terms of all bids

# Red Flags of Bid Manipulation

- Controls and bidding procedures not enforced
- Evidence of changes to bids
- Complaints from competing contractors about the evaluation process
- The winning bid was voided, and the job was re-bid or awarded to another contractor

# Red Flags of Bid Manipulation

- An otherwise qualified bidder was disqualified for seemingly arbitrary, false, frivolous, or personal reasons. Acceptance of late bids
- Contract awarded to a non-responsive bidder
- Lost bids of competing contractors
- After bids were received, contract was changed, re-bid, and awarded to different contractor

# Red Flags of Bid Manipulation

- Extension of bid deadlines
- Contract not re-bid after receiving fewer than the minimum number of bids
- Invitations for bids sent to:
  - Unqualified contractors
  - Contractors that previously declined to bid

# Detecting Bid Manipulation

- Examine and note red flags in:
  - Invitations for bids
  - Procurement records
  - List of approved contractors
- Compare unsuccessful bids to winning bid.

# Detecting Bid Manipulation

- Determine if bid notifications were properly publicized and distributed to an adequate number of qualified contractors.
- Determine legitimacy of any claims that errors or changes in specifications caused a contract to be re-bid.

# Unbalanced Bidding

- Bidder learns that a line item in an RFP will not be called for under the contract
  - Bidder might also be aware of some other change in the planned mix of line items that will be requested
- Allows the bidder to submit a very low price for the line item and to be the overall low bidder and/or to inflate prices on other items



# Preventing Unbalanced Bidding

- Review of work statements and specifications by someone familiar with goods or services being procured.
- Document all cost/price analysis work, including comparisons of all individual items.
- Obtain explanations for any items with wide variance.

# Red Flags of Unbalanced Bidding

- Line items in a request for a bid seem unusually low
- Line items in a request for a bid differ from those in the actual contract
- Post-award change orders that reduce the requirements for low-bid line item(s)
- Certain line item bids not performed or purchased as required under the contract

# Red Flags of Unbalanced Bidding

- Similar contract awards do not require line item bids
- Close relationship between contractor and employee drafted the specifications
- Contractor's bid is similar to or the same as the budgeted estimate

# Detecting Unbalanced Bidding

- Examine and note any red flags in the following:
  - Contract specifications
  - Requests for proposals
  - Procurement records
  - Contract award documents
  - Change orders

# Detecting Unbalanced Bidding

- Match line items on invitations for a bid with actual contract performance.
- Compare amounts bid on individual line items by each bidder.
- Compare and match the line items on the request for submissions with the actual contract performance.
- Examine any change orders that affect line items and review them for reasonableness.

# Leaking Bid Data

- Employee leaks pre-bid information or confidential information from competing bidders to a favored bidder, giving that bidder an unfair advantage in the bidding process

# Red Flags of Leaking Bid Data

- Winning bid is just below the next lowest bid
- Winning bid is unusually close to the procuring entity's estimates
- The last party to bid wins the contract
- The contract is unnecessarily re-bid

# Red Flags of Leaking Bid Data

- A contractor submits false documentation to get a late bid accepted
- A procurement employee socializes with contractors
- A procurement employee experiences an unexplained increase in wealth or outside income



# Detecting Leaking Bid Data

- Examine and note any red flags in:
  - Invitations for bids
  - Procurement records for the relevant period
- Determine if requests for bids were publicized in accordance with the applicable rules or regulations.
- If the contract was re-bid, compare original bids to subsequent bids and determine if information appeared to be shared.