PREVENTING FRAUD

A GUIDE FOR USAID IMPLEMENTERS

**Preventing & Detecting Fraud**

The following steps can be taken to detect fraud or corruption in your internal procurement or sub-award processes:

**Vendor Verification**
- Do the vendors exist?
- Were they properly awarded the contract?
- Did they pay a kickback or bribe?
- Do they have relatives or friends on your staff?

**Bidder Verification**
- Do the bidders exist?
- Can they verify their bid in your procurement file?
- Were they solicited for a kickback or bribe?
- Do they know anything else about the procurement?

**Price Verification**
- Did you receive fair market value for the items you purchased?
- Does the quality match what was requested and paid for?

**Steps Should Be Carried Out by Personnel Independent of the Processes Being Verified**

**Conflict of Interest**

A conflict of interest arises when a contractor or sub-contractor’s official decisions are influenced by personal interests. According to USAID policy, conflict of interests, whether real or potential, must be disclosed. These conflicts of interests may include, but are not limited to:

1. Familial or close personal relationships between procurement staff and subcontractors
2. Procurement staff having a direct financial interest in a bidder or subcontractor
3. Procurements made where staff have an employment link to the subcontractor

**Examples of Soliciting Bribes/Kickbacks**

Just because your process is perfect doesn’t mean that bribery and/or kickbacks will not occur!

USAID OIG has uncovered and prosecuted numerous cases of bribery and fraud that had no impact on the procurement process. Here are a few of the most common ways of soliciting bribes and kickbacks:
- To get the application or RFP
- For favorable consideration (Cash on Delivery). These generally occur in the middle of the procurement process using middlemen
- As “appreciation” and to secure future contracts

**Preventative Measures**

- Mark all applications/RFPs with a statement that no payment is required to apply
- Clearly mark on application, materials, or organization’s web site where people should report instances of potential corruption, such as the USAID-Pakistan Anti-Fraud Hotline
- Spot check your own process by trying to apply for a grant or subcontract to see what happens

**Other Fraud Indicators**

Examples of fraud include bribery, inappropriate gratuities, theft, solicitation, embezzlement, product substitution, false claims, and collusive behavior between vendors and/or procurement staff. Fraud indicators include:
- False bids from companies that do not exist—sometimes created by the winning bidder
- Cost much higher than local market value
- Failure to follow internal control policies
- Awards made to contractors with an apparent history of poor performance
- Improper segregation of duties, placing excessive reliance on one person

**Post-Award Actions to Prevent Fraud**

- Verify the existence of bidders and vendors. Visiting in person is always the best way.
- Conduct unannounced inspections to ensure compliance with procurement standards and quality of construction materials and purchased items.
- Carefully review all sole-source procurements. Reduction in competition increases likelihood of fraud.
- Look for multiple vendors, bidders, or subgrantees using the same mailing address, bank account numbers, fax numbers, or email addresses.
- Require all personnel to disclose any pre-existing relationships with bidders and subcontractors.
- Keep an eye out for excessive photocopies of invoices as well as erasures and white-outs, which may be an attempt to manipulate the audit trail or commit the fraud via the alteration.

**USAID-Pakistan Anti-Fraud Hotline**

**Telephone:** 0092-21-35390408-9  **Toll Free Number:** 0800-847000
**E-Mail:** complaints@anti-fraudhotline.com  **Fax:** 0092-21-35390410

**US-Based OIG Hotline (DC)**

**Hotline Number:** 1-800-230-6539  **E-Mail:** ig.hotline@usaid.gov
**Address:** USAID/OIG, P.O. Box 657 Washington, DC. 20044-0657