

PREVENTING FRAUD



USAID
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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 sub-contractors
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: 0800-84700
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