



# UNDP Regional Workshop on Corruption in Public Procurement: Prevention, Detection, and Investigation Methods

Session 3: Techniques of investigating complex corruption crimes in public procurement

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27 September 2022

Amman, Jordan

# The basic steps of a complex procurement fraud and corruption investigation

# The Ten Basic Steps of a Complex Investigation

## INTERNAL STEPS

1. Debrief the whistleblower
2. Test the allegations or indicators
3. Do background checks on on firms and individuals
4. Review the relevant internal documents
5. Check for predication

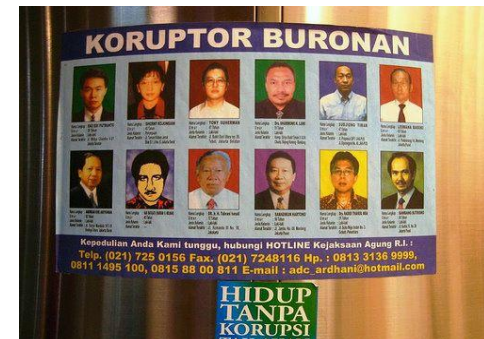
## EXTERNAL STEPS

6. Begin the external investigation
7. Trace illicit payments
8. Obtain the cooperation of an inside witness
9. Interview the primary subject
10. Draft the final report

# Step ONE

## Begin the case

- THOROUGHLY interview the complainant or whistleblower
- Identify **red flags** and follow up
- Conduct computer-aided fraud detection tests



# Step TWO

## Evaluate the allegations



- Quickly evaluate the allegations:
  - Plausible?
  - Detailed enough to pursue?
  - Provable?
  - Adequate resources to pursue?
- Test the allegations by matching them to the red flags of the alleged offenses
- Recontact the whistleblower as necessary

# Step THREE

## Do background checks

Address, map & satellite checks

Agent information

Business directories and registries

Court records

Employment records

Financial Disclosure Forms

General information sites

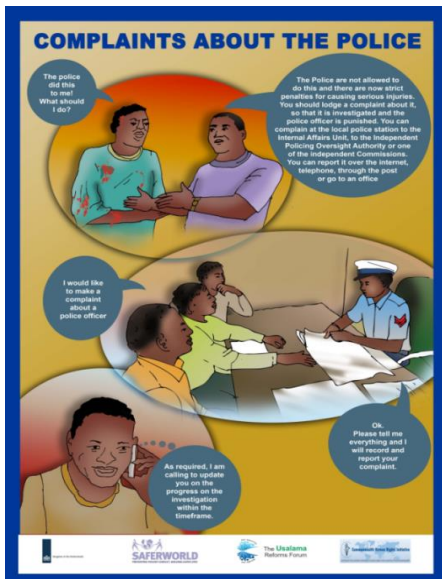
Internet sites

Media reports

Real property records

Social media sites

Tax registries, etc.



The checks may reveal undisclosed assets or side businesses; shell co. vendors and suppliers, etc.

# Step FOUR

## Do internal investigation

Look for evidence of FRAUD, BID RIGGING and CORRUPT INFLUENCE in the victim agency files, including the “SPQQD” factors:

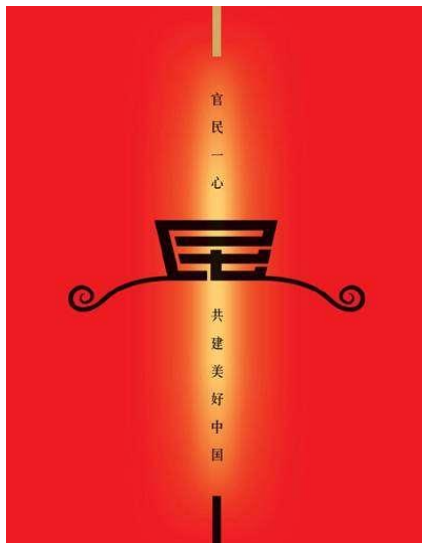
- S Selection
- P Price
- Q Quantity
- Q Quality
- D Delivery

Collect and review financial disclosure forms, business and personal emails; seize or image business and personal computers

Begin to organize the evidence according to the Elements of Proof – very important

Interview cooperative internal witnesses

Evidence of bid rigging may lead to the identify of a corrupt procurement official and contractor, to be followed by further investigative steps to prove the corrupt payments



# Step FIVE

## Check for predication



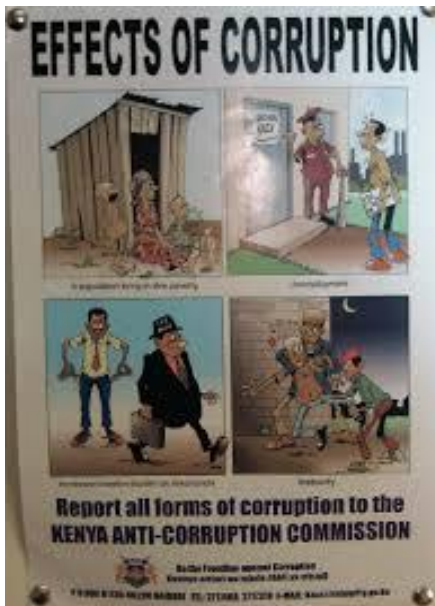
Determine if there is a sufficient factual basis (“predication”) to proceed

If not, record the complaint and close the case or refer it to audit or the appropriate agency

If proceed, be sure to **focus on the leads**, be organized, have a reason for each step of the investigation; don’t collect info at random

## Step SIX

### Begin external investigation



Issue subpoena or document requests to outside witnesses and suspect contractors

Collect contractor's documents and data, including emails; seize or image computers

Look in the contractor's records for unusual payments and fraudulent billings

## Identify potential **inside witnesses** who may cooperate

Contract documents, emails and computer hard drives may reveal direct or indirect evidence of gifts, bribes or other benefits to the corrupt official, to be followed by further investigation as in Step 7

# Step SEVEN

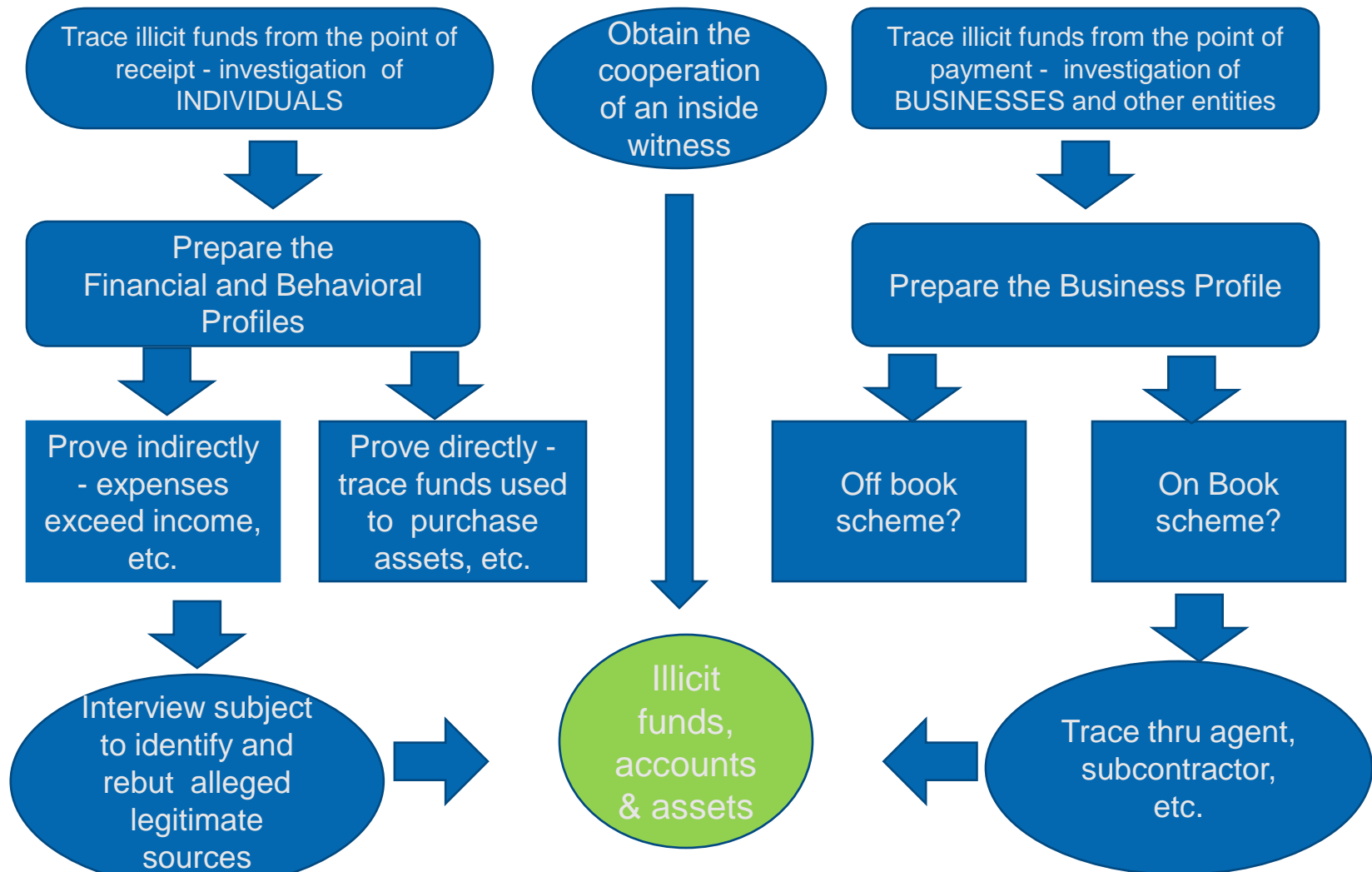
## Trace Illicit Payments



Decide how to trace illicit payments:

- **OUT** from the point of payment, from the financial books and records of the suspected payer
- **BACK** from the point of receipt, from the financial records of the suspected recipient
- **OBTAIN THE COOPERATION** of an inside witness

# Basic Financial Investigation Steps



# Step EIGHT

## Obtain the cooperation of an insider



For example, use evidence of fraud obtained in Steps 4 or 6 to obtain the cooperation of an inside witness

Again, be aware of how you present yourself to the inside witness: thorough preparation, professionalism and skill in interviewing are required for success;

**Such witnesses often have evidence of critical for success that would otherwise be unavailable**

**Think about who these witnesses might be and plan to obtain their cooperation from the early stages of the case**

# Step NINE

## Interview the primary subject

Interview the primary subject, usually the bribe recipient, to:

- Obtain a confession or, more likely, helpful admissions
- Obtain necessary evidence of identity, knowledge and intent
- Identify and rebut DEFENSES; e.g. that the subject claims to have a legitimate source for unexplained income

Ask questions and request documents regarding the subject's income, assets, expenses, liabilities and tax filings; include family members

**BE THOROUGH and WELL PREPARED**  
to prevent gaps in the questioning



# Step TEN

## Draft the final report or charges

Organize the report according to the elements of proof of the offenses

Simplify and clarify

Rebut defenses



# Tips on preparing effective reports

- Show that the witness statements are CREDIBLE, based on DIRECT, PERSONAL KNOWLEDGE and CORROBORATED by other evidence;
- Make sure the relevant documents are AUTHENTICATED;
- Show that any electronic evidence was collected from the most RELIABLE SOURCE and was not altered;
- If relying on CIRCUMSTANTIAL EVIDENCE of wrongdoing, make sure that:
  - All legitimate explanations for the evidence have been EXCLUDED;
  - That the evidence is presented in CLEAR, CONCISE AND COMPELLING way;
- Make certain that there is sufficient evidence of KNOWLEDGE AND INTENT, either directly or circumstantially;
- Try to identify and rebut all potential DEFENSES

# Steps to prove collusive bidding

- Inspect physical bids; note similarities
- Do background checks on bidders
- Look for unusual bid patterns; e.g., bids an exact % apart; identical line-item bids
- Inspect bid securities; note if sequential or appear to be forged; confirm legitimacy with issuing bank
- Interview “divers”
- Interview losing bidders and solicit their cooperation; use evidence of fraud as leverage
- Interview and audit winning bidders



# UNDP Regional Workshop on Corruption in Public Procurement: Prevention, Detection, and Investigation Methods

Session 4: Examples of successful investigations of corruption and fraud in public procurement

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27 September 2022

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# Case Example 1 - corruption and fraud in public works



# Where the money ended up in the US...



# Case example 1– corruption and fraud in public works



The subject of the investigation was:

- An International Aid Agency employee, a Ph D. Economist
- The subject of many prior allegations of corruption and failed prior investigations
- Guilty of many procurement abuses in the projects he managed

A new whistle blower alleged that:

- The main road in the capitol city was only a year old and was already in disrepair, indicating fraud
- The subject had supervised the project
- At the same time the subject built the most expensive house in the city
- The Aid Agency sent investigators to inspect the road and interview the whistleblower
- The investigators confirmed that the road was not built to specifications and was already in total disrepair, and that the subject had committed several abuses in the award of contracts

The investigators:

- Learned that the road was built by a local construction company that had many prior contracts
- Approached the company and requested its construction records; the company said all the records had been destroyed in a recent fire
- Learned that the expensive house built by the subject was occupied by a local low level government worker, the subject's girlfriend
- Attempted to determine the source of funds to construct the house, and learned that it was built by many small local tradesmen and that no records were available

# Case example 1 – corruption and fraud in public works, cont.



The investigators:

- Turned their attention to the subject's finances in the US and learned that he:
  - Filed for bankruptcy five years before
  - Had a salary of US \$54,000 to \$85,000 during the relevant period
  - Had no other apparent sources of income
- Checked public real property records and learned that the subject recently purchased a house for US \$1 million, \$500,000 down and \$500,000 financed
- Checked building permits and learned that the subject spent another \$500,000 on improvements to his house and installed a swimming pool for \$100,000
- Interviewed the home improvement contractor, who asked to be paid before he would cooperate
- Interviewed the owner of the company that installed the swimming pool
  - The owner said the subject paid for the pool by (1) bank checks drawn on five US banks, (2) American Express Travelers checks and (3) cash in brown paper bags
- Contacted the American Express Security Department in London and learned that the Amex checks were purchased as part of several batches of \$25,000 from a Swiss bank
- Interviewed the subject:
  - He admitted having a Swiss bank account and that his expenditures exceeded his income
  - He said the excess funds came from deposits by his father-in-law to his Swiss bank account
- Investigated the father-in-law, and learned that he had died, intestate, before the subject opened his Swiss bank account

# Case example 1– corruption and fraud in public works, cont.



The Aid Agency wanted more evidence

- The investigators discovered that a consulting firm in Mauritius hired the subject as a “consultant” on the road project and paid him \$12,000 in traveler’s checks; in exchange the subject extended the firm’s contract

The Aid Agency fired the subject for a conflict of interest for accepting the consulting payments

## LESSONS LEARNED

Follow the leads, apply the basic steps of an investigation and even big cases are not that difficult

# Case example 2 - collusive bidding, corruption and fraud

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C. Earthworks		% Variance vs ABC
117,411,763.53		
221,474,877.51	88.63	
160,867,040.61	37.01	
235,225,851.51	100.34	
235,171,716.83	100.30	
184,714,928.51	57.32	
130,035,336.59	66.96	

J. Dayworks Schedules		% Variance vs ABC
52,107,644.29		
61,381,613.61	17.80	
23,233,502.87		

Cost Estimate:		% Variance vs ABC
104(1)d Embankment		
191,930 m³ at 265.17 (unit price) = 50,894,239.32		
1,235,340,747.28	33	
1,265,660,000.00	34	
1,285,858,585.88	35	
1,296,000,477.64		
1,302,573,093.31		
1,266,660,000.00		
1,276,000,000.00		

Companies B, C and F are disqualified

Severely overpriced earthworks component

Evidence

# Case example 2 - collusive bidding, corruption and fraud



The concern:

- Ten years of increasingly expensive public works projects
- Unclear why – contractors blamed security requirements, high commodity prices
- The international funding agency suspected collusion; opened an investigation

The investigators:

- Met with the Director of a local contractor's association; he said collusion and fraud in public works was “common knowledge” in the country and explained the scheme:
  - A prominent politician organized regular meetings with contractors at a local hotel where he would advise the contractors of what contracts would soon be open for bids
  - The contractors would decide among themselves who would win what contracts at what prices
  - The contractors would pay bribes to top government officials for the privilege of dividing the works
  - Sham bidding processes would be held
- Located a complaint from a “diver” and interviewed him
  - He confirmed the scheme and said he had been invited to join the cartel
- Noted a Korean company had withdrawn from the cartel
- Traveled to Seoul and interviewed the company, which admitted its role in the scheme
- Interviewed the owner of very small local company that always bid and always lost, and which had submitted a forged bid security
  - She admitted role in collusion scheme and provided emails from participants fixing high prices
- Collected more evidence of collusion and bid rigging, as presented in the attached power point slide
- The International Funding Agency suspended payments and demanded reforms

LESSONS LEARNED The importance of interviewing and obtaining the cooperation of insiders

# Case example 3 - Chasing Mr. Big

20 years of kickbacks and bribes

# Case example 3 - 20 years of kickbacks and fraud



The subject was an international consultant who was the subject of complaints for many years from local contractors about bribe demands

The consultant was linked to a consulting engineering company - headquartered in Zug, Switzerland - that won 12 of 13 contracts on projects he managed.

At a meeting with local contractors, one of the participants mentioned that he knew of a company that “was tired of paying the consultant,” and offered to introduce investigators to its owner.

The investigators met with the owner, who, in exchange for an agreement not to sanction his company, admitted that his company recently paid the consultant \$750,000 to avoid cancellation of its contract.

The owner agreed to instruct his CFO to cooperate with the investigators and to provide copies of the checks and other evidence of the bribe payments.

An investigator, accompanied by a local policeman (from a police force that had a reputation for corruption) met with the CFO. The investigator did not advise the CFO that the policeman would be present.

The investigator turned on a tape recorder at the start of the interview, without the witness’ permission, and failed to confirm the terms of the CFO’s cooperation or the use of the information he would provide.

The CFO denied any knowledge of payments to the consultant and declined to produce any documents.

After the interview the CFO admitted that he had “misled” the investigator. He said he was worried about the tape recording, the presence of the policeman and other concerns.

The investigator did not restart the interview.

**LESSONS LEARNED** How inexperience, lack of preparation and by an investigator can ruin a promising and important case.



# Keys to Success from Actual Cases

# Necessary Knowledge

- **Know “Fraud itself”**  
How fraud schemes operate, their red flags, the necessary steps of proof, etc.
- **Obtain special subject matter expertise when needed**  
E.g., construction expertise in a construction fraud case, IT expertise in an IT fraud case.
- **Know the elements of proof of the offenses**  
Focus the investigation and report on the elements of the offense. **Very important.**
- **Know the rules of evidence**  
Methods of direct and circumstantial proof of corrupt influence, knowledge and intent, etc.
- **Know how to prove illicit financial transactions directly and indirectly**  
Including Net Worth and Source and Application of Funds analysis
- **Know how to file successful MLAT requests**  
Very important in international cases; many requests are not drafted correctly, and as a result are ignored or delayed
- **Know how to employ forensic audit and investigative tools**  
Such as programs to recover deleted emails

# Necessary Skills

## Interviewing skills

- Critical in complex cases, but it is often the weakest of a fraud investigator's skills
- Know how to successfully conduct the three basic types of interviews in complex cases: the cooperative witness, the culpable inside witness and the primary subject

## Organizational skills

- “The organizational genius is the investigative genius”
- The key organizational tool is often the “case chronology,” especially in corruption cases

## Analytical skills

- The essence of an investigation is the *intelligent cross referencing* of information, not just the collection of information.
- Attention to detail is critical: e.g., *scrutinize* documents and evidence, rather than merely reviewing them, e.g., staples holes in documents, exact % difference in bids in a collusion case. Computers can help here.
- Don't overdo the use of spreadsheets, charts, or graphs: the goal is to focus and simplify the case – find the relevant and exclude the irrelevant - not to record every piece of information collected

# Effective Investigative Strategies

Follow the leads

Follow the leads!! Follow the leads!!

Move from bid rigging to corruption

This is the most common approach

Move from fraud to proof of corruption

Fraud is easier to detect and prove than bribes and can provide good leads to illegal payments

Go “Up the ladder”

Identify and convict lesser players in the fraud, negotiate for their cooperation against the more important offenders

Obtain the cooperation of an inside witness

As discussed above

Break up the case

If necessary, be content with proving smaller transactions that are part of the larger case, for example the submission of fraudulent invoices or fraudulent bid securities by bidders

Prove conflict of interest rather than bribery

No need to prove corrupt influence, only need to prove failure to disclose a benefit



# More on why we fight corruption











# Thank you!

