Bribery and Corruption

Corruption Schemes in Purchasing
Introduction

- The purchasing process for most organizations
- Types of schemes that occur in purchasing
- Ways front businesses are used in corruption schemes
The Purchasing System

- Those processes, procedures, and entities involved in the purchase of goods and services
The Purchasing System

Methods that organizations use to acquire goods and services:
- Competitive bidding using sealed bids
- Contracting by negotiation:
  - Competitive negotiation
  - Sole-source contracting
- Simplified acquisition procedures:
  - Charge accounts
  - Purchase cards (p-cards)
  - Purchase orders
  - Petty cash funds
The Purchasing System

- Four phases in the procurement process:
  - Pre-solicitation
  - Solicitation
  - Evaluation and award
  - Post-award and administration
The Purchasing System

- Employees involved in the purchasing process:
  - Employees with needs for goods or services
  - Employees in departments with needs for goods or services
  - Buyers, purchasing managers, or anyone buying for business
  - Inventory and warehouse personnel
  - Shipping and receiving personnel
  - Accounts payable personnel
The Purchasing System

- Employees involved in the purchasing process:
  - Vendors, suppliers, and contractors
  - Purchasing card (p-card) administrators
  - Information technology (IT) personnel
  - Marketing department personnel
  - Engineers
  - Legal counsel
The Purchasing System

- Common corruption schemes in purchasing:
  - Need recognition schemes:
    - Unnecessary purchases
    - Excessive purchases
  - Bid tailoring schemes:
    - Drafting narrow specifications
    - Drafting broad specifications
    - Drafting vague specifications
The Purchasing System

- Common corruption schemes in purchasing:
  - Bid manipulation schemes:
    - Acceptance of late bids
    - Altering received bids
    - Extending bid opening dates without justification
    - Opening bids prematurely
    - Rebidding work
    - Disqualifying bids for improper reasons
    - Disqualifying prospective contractors for improper reasons
    - Falsifying the bid log
The Purchasing System

- Common corruption schemes in purchasing:
  - Leaking bid data
  - Unjustified sole-source awards
  - Bid splitting schemes
The Purchasing System

- Common corruption schemes in purchasing:
  - Approval of inflated prices
  - Approval of invoices for goods or services not rendered
  - Purchases conditioned upon corrupt payments
  - Undisclosed conflicts of interest
Shell Company Schemes

- *Shell companies* are companies that have no physical presence and generate little or no independent economic value.
- Not all shell companies are illegal; many are used for legitimate business purposes.
- Shell companies can be used to perpetrate financial crimes.
Shell Company Schemes

- Common types of shell company schemes:
  - Billing schemes
  - Fictitious bids
  - Concealing corrupt payments
  - Concealing illicit assets
Shell Company Schemes
Shell Company Schemes

- Preventing shell company schemes:
  - Segregate purchasing authorization, confirming purchases, and authorizing payment.
  - Require purchase orders for payment.
  - Create an approved vendor list.
  - Use vendor data forms.
  - Verify the authenticity of contractors before making payments.
  - Do not allow employees approving payments to add or delete vendors.
Shell Company Schemes

- Preventing shell company schemes:
  - Periodically compare budgeted expenses with actual expenses.
  - Periodically compare vendor addresses with employee addresses.
  - Track unusual invoicing patterns.
  - Train personnel to be alert to the red flags.
  - Do not deal with vendors that do not have a physical address.
Corruption Outside the Procurement Cycle

- Bribes for product recommendations
- Bribes for inflated asset appraisals
- Bribes for below-market sales
- Bribes for investment manipulation