

Avoidance of Irregularities and Fraud in IPARD projects

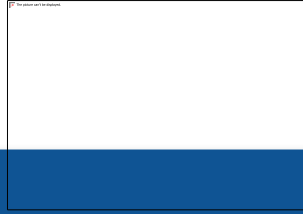


IPARD:

Sound financial management

Footnote 9 of the Framework Agreement

- **Ensuring legality and regularity of expenditure**
- **Appropriate administrative and control environment**
- **Preventing/detecting fraud/irregularities**



Typology of Fraud and Irregularities in IPARD Projects

Scene-setter: What is the aim of fraud and irregularities?

**Inflate investment costs
for higher IPARD funding
and less own contribution**

Choose a specific supplier



Recipients

**Inflate prices for higher
profit**



Suppliers

**Inflate prices/favour one
supplier for extra
commission**



Consultants

Recipient-driven irregularities

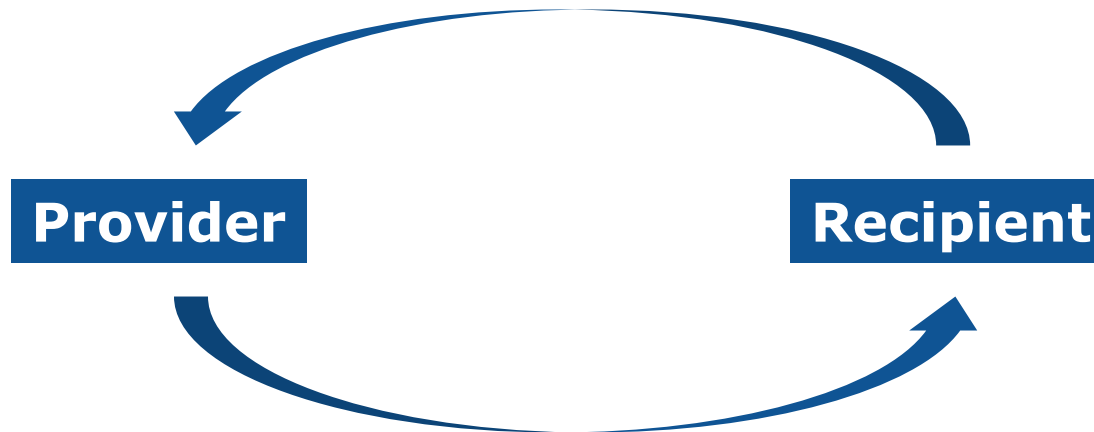
Purchase at a price above market value

**Market price:
70.000 €**



**Purchase price:
92.000 €
(50% IPARD)**

Pays 92.000 €



Provider

Recipient

**Reimburses 20.000 €
(2.000 € margin)**

**Cash/bank transfer
Discounts on other purchases**

False	
Payment	92.000
Reimbursement	- 20.000
	72.000
IPARD contribution	- 46.000
Own investment	26.000

Honest	
Payment	70.000
IPARD contribution	- 35.000
Own investment	35.000

Supplier-driven irregularities

Sale at a price above market value

**Market price:
70.000 €**



**Sales price:
92.000 €**

**Advantage for supplier:
22.000 €**

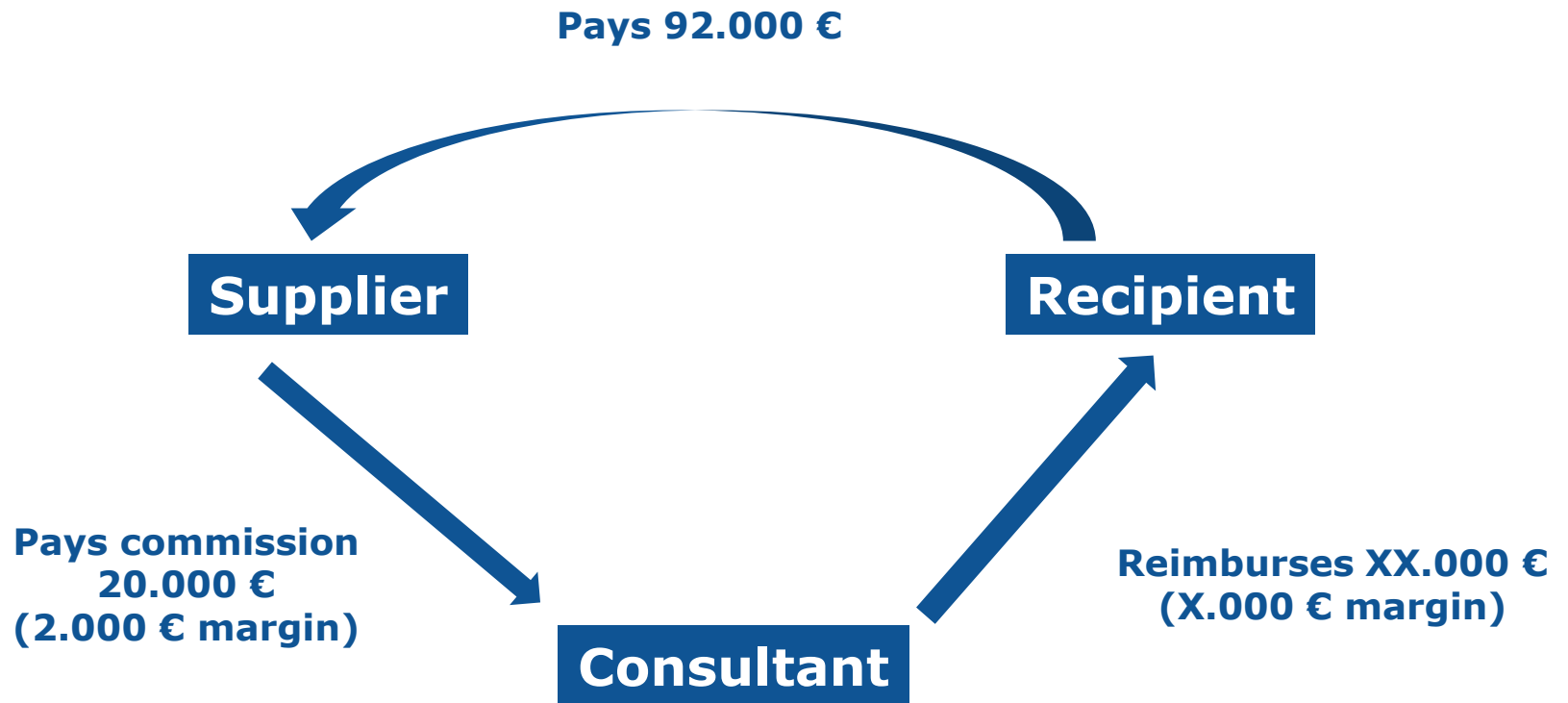
Consultant-driven irregularities

Sale at a price above market value

**Market price:
70.000 €**



**Sales price:
92.000 €**



How is reasonableness of costs ensured?

Reference costs
Standard unit costs
Comparison of different offers
Evaluation committee

Fraud and irregularities under reference costs

- **Second-hand equipment instead of new**
- **Smaller model delivered than declared**
- **Model with expensive extras that are not delivered**

Fraud and irregularities under comparison of different offers

“Several authentic and independent offers from qualified suppliers to ensure competition and best value for money to attain the purpose of the project”

- **Complacency offers**
- **Manufactured/falsified (and inflated) offers**
- **Second-hand equipment instead of new**
- **Construction: Hidden works, less works**

Complacency offers

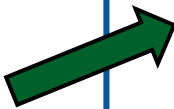
- **“Alliance of evil”**
- **True complacency**



Complacency offers

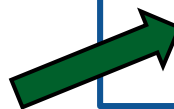
- **“Alliance of evil”**
- **True complacency**
- **Several bidders participate in bidding carousel**

Project 1




A: 1.000
B: 1.100
C: 1.200

Project 2



A: 1.100
B: 1.000
C: 1.200

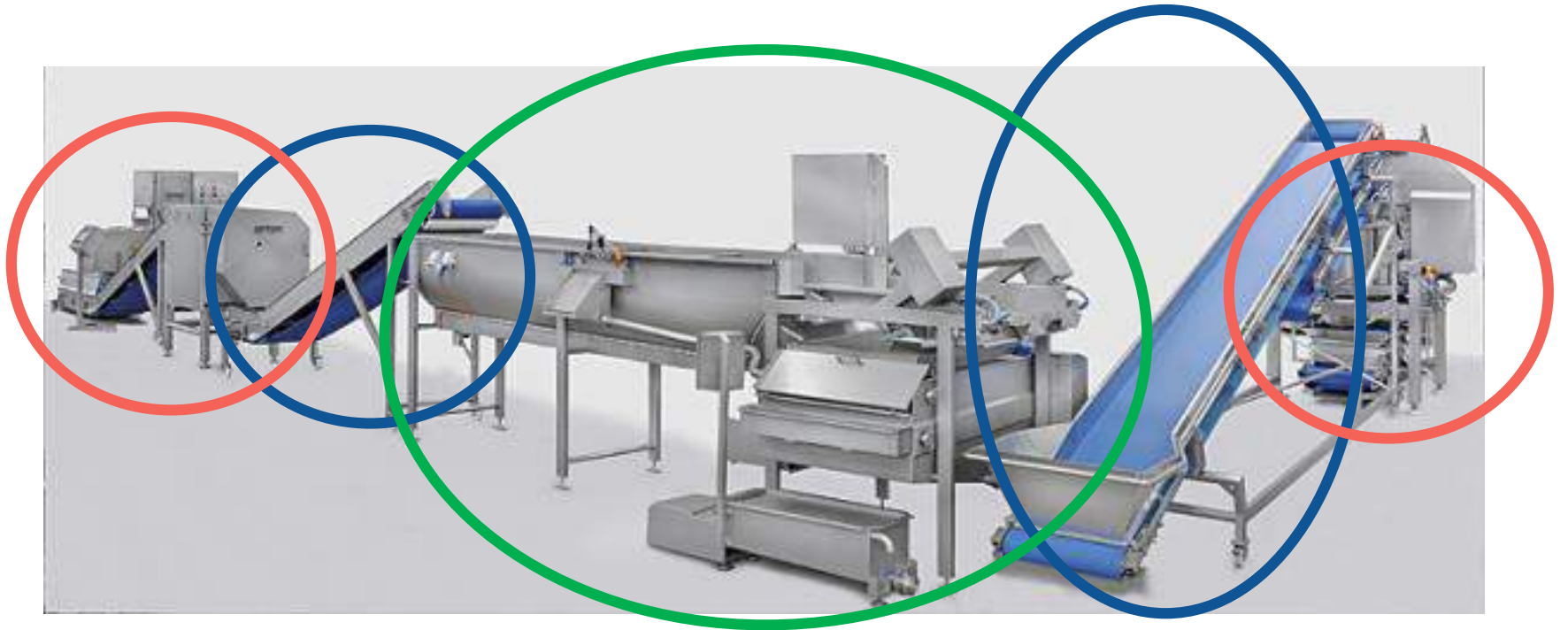
Project 3

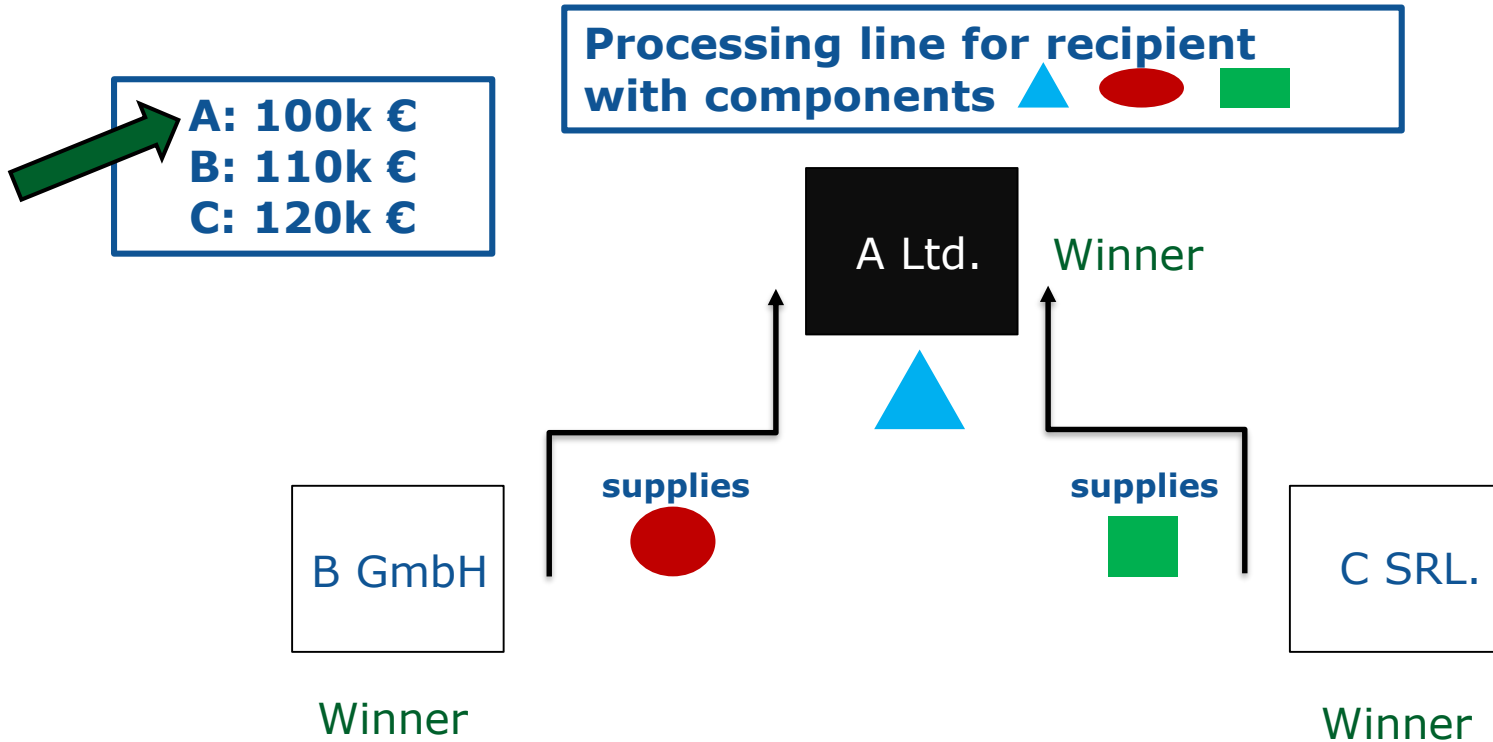


A: 1.200
B: 1.100
C: 1.000

Complacency offers

- **“Alliance of evil”**
- **True complacency**
- **Several bidders participate in bidding carousel**
- **‘Losing’ bidders supply equipment to ‘winning’ bidder (“No-loser-deal”)**





Complacency offers

- **“Alliance of evil”**
- **True complacency**
- **Several bidders participate in bidding carousel**
- **‘Losing’ bidders supply equipment to ‘winning’ bidder (“No-loser-deal”)**
- **Non-independent offers: Bidders affiliated**

H Holding Ltd.

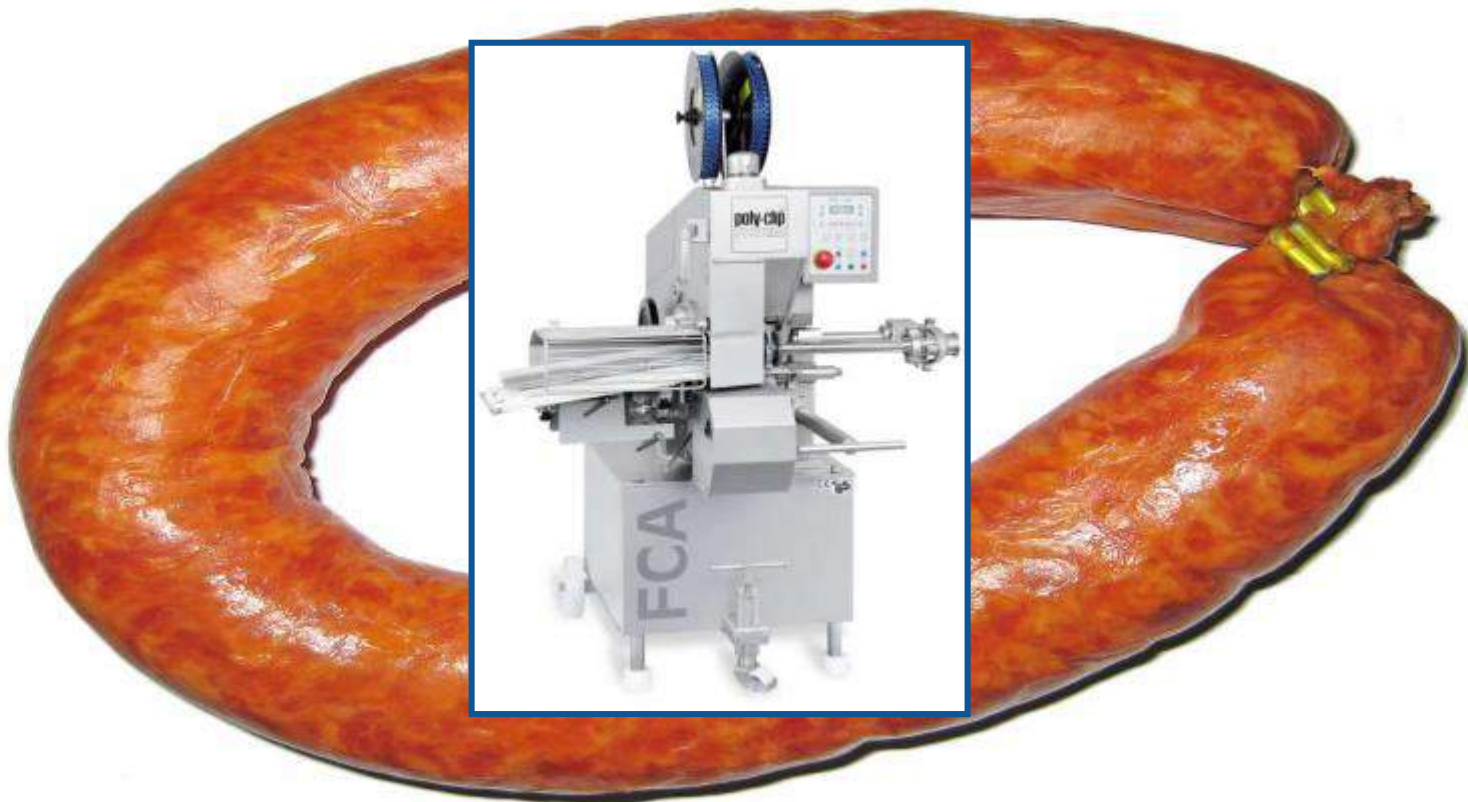
A Ltd.

B Ltd.

C Ltd.

Manufactured offers

- One offer is authentic, others falsified (all are inflated)
- Consultants
- Sales agents abusing from their position representing various manufacturers

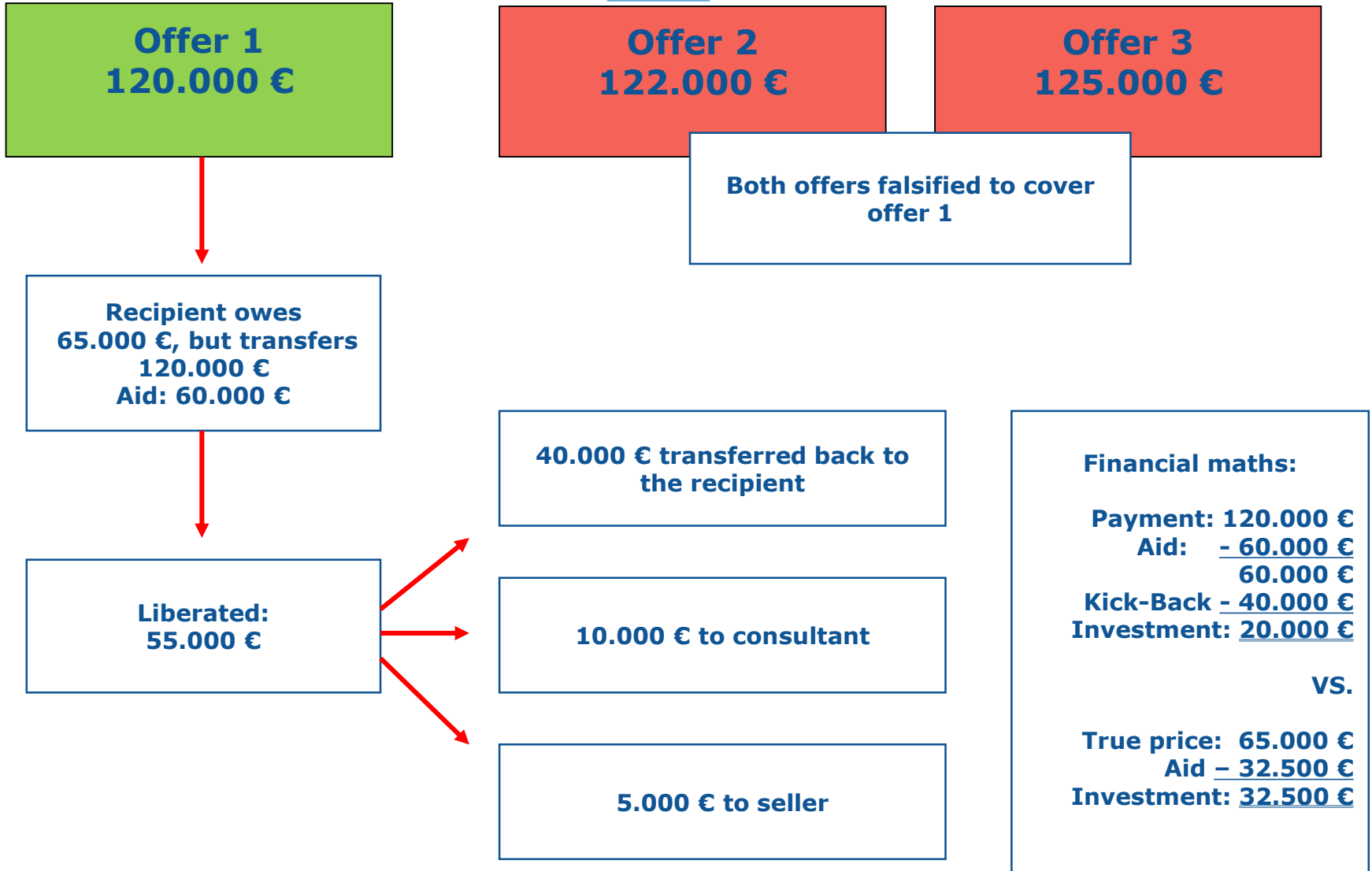


**Double
Clip**

MASCHINENPREISLISTE

Typ	Bezeichnung	Preis Euro
FCA 3430	Füll - Clip - Automat für Portionswürste inkl. Bugrad	85.310,00

List price = 85.310 €
Market price = 65.000 €



Artificial creation of funding conditions

What?

Setting up of a project for a recipient that looks real, but in reality will serve another entity

Why?

Funding limitations

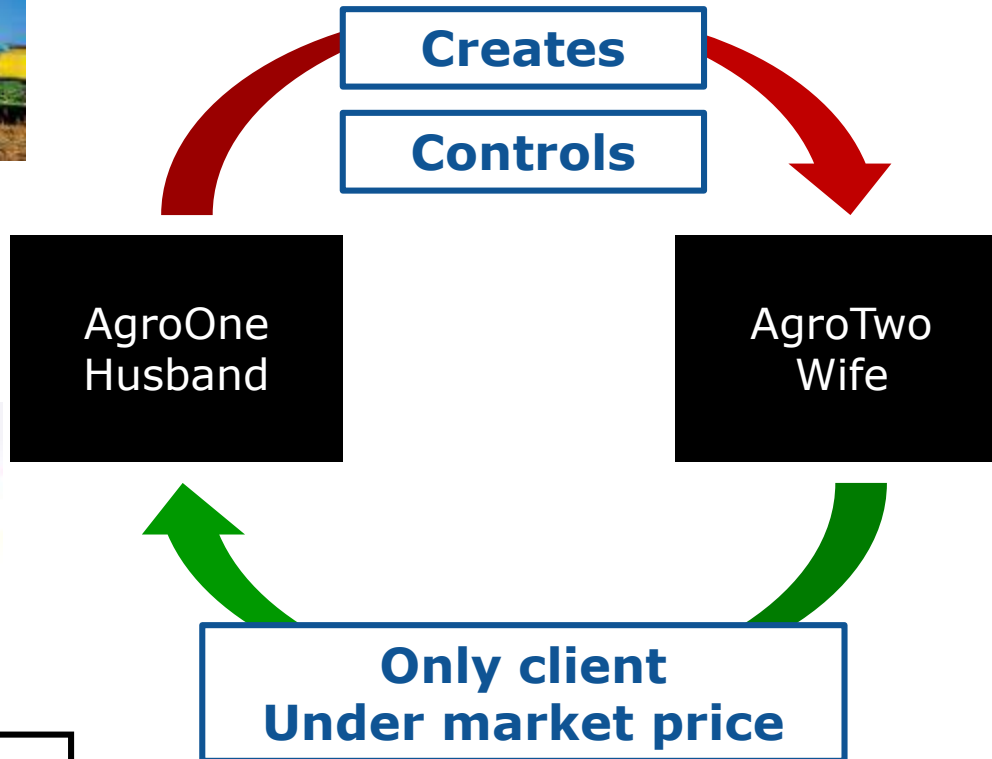
- Only one project at a time – new project only when pervious project finalised

Temptation to circumvent funding limitations

Article 7 of the Financing Agreement

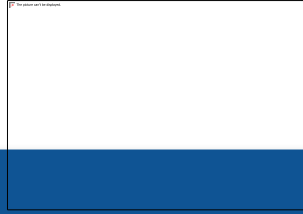
"Without prejudice to specific provisions in the Agreements, no payment shall be made in favour of a claimant or to their assignee(s) for whom it is established that they artificially created the conditions required for obtaining such payments with a view to obtaining an advantage contrary to the objectives of the support."

How?



Measure 1
Costs 1,45 million €
Support 60%

Measure 3
Costs 250 k€
Support 60%



Red Flags for Irregularities and Fraud in IPARD Projects



Red Flags

- **Factual/legal indicators for fraud/irregularities**
- **= "Something is unusual"**
- **May serve as evidence**
- **Where Red Flag detected: Further verification to understand the Red Flag and if there are more**
- **Red Flags: Dynamic – from indication to suspicion to conviction (the more Red Flags or the redder, the more suspicion)**

Red Flags for manipulated, non-competitive offers

- **Formal indicators**
- **Structural indicators**
- **Pricing anomalies**
- **Anomalies in the identity of the bidder**

Formal indicators

All offers or some offers:

Identical contents

Identical contents

Tractor Deutz-Fahr

Series 5G – 5105.4
75/102 kW/CV
Air-conditioning
Pneumatic seat
Hydraulic 60ECO

Price: 49.000 €

Tractor Deutz-Fahr

Series 5G – 5105.4
75/102 kW/CV
Air-conditioning
Pneumatic seat
Hydraulic 60ECO

Price: 49.500 €

Tractor Deutz-Fahr

Series 5G – 5105.4
75/102 kW/CV
Air-conditioning
Pneumatic seat
Hydraulic 60ECO

Price: 49.900 €

Formal indicators

All offers or some offers:

Identical contents

or

Identical errors

Identical errors

- **Typographic errors**

Identical errors

Tractor Deutz-Fahr

Series 5G – 5105.4
75/102 kW/CV
Air-conditioning
Pneumatic seat
Hydraulic 60ECO

Price: 49.000 €

Tractor Deutz-Fahr

*Series 5G – 5105.4
75/102 kW/CV
Air-conditioning
Pnumatic seat
Hidraulic 60ECO*

Price: 49.500 €

Tractor Deutz-Fahr

Series 5G – 5105.4
75/102 kW/CV
Air-conditioning
Pnumatic seat
Hidraulic 60ECO

Price: 49.900 €

All three offers or two out of three: identical errors

- **Typographic errors**
- **Errors in name/address of recipient**
- **Wrong brand or model names**



John Deere Tractor 6MC

John Dear Tractor 6MC

John Dear Tractor 6MC



All three offers or two out of three: identical errors

- **Typographic errors**
- **Errors in name/address of recipient**
- **Wrong brand or model names**
- **Wrong country of origin**
- **Possible exception: Templates for construction works**

Item	Work Type	Unit	Quantity	Unit price	Total
1	Foundation: DIN 7023 concrete slab 350 mm; Steel armour 25 mm; density P4	m ²	125		
2	Drainage system for roof with 7 collectors R56 lateral type	m	82		
3	Power cabling 400 V 9A, diameter 28 mm, under plaster	m	255		
4	Prefab. Wall construction		341		
5	Doors fireproof Grade A3 with frame and armature	pce	16		
6	Windows double glazing PVC white 125x90 cm	pce	14		



Always identical

Differences

Pricing anomalies

- **Offers show unusual price patterns**



	Bidder A	Bidder B	Bidder C
Item 1	700,00	725,50	815,00
Item 2	1.256,23	1.355,77	1.389,84
Item 3	552,25	560,64	570,00
Item 4	488,23	578,36	612,41
Item 5	4.588,26	4.642,87	4.684,99
Item 6	556,23	572,99	579,56

**Always
lowest**

**Always
in between**

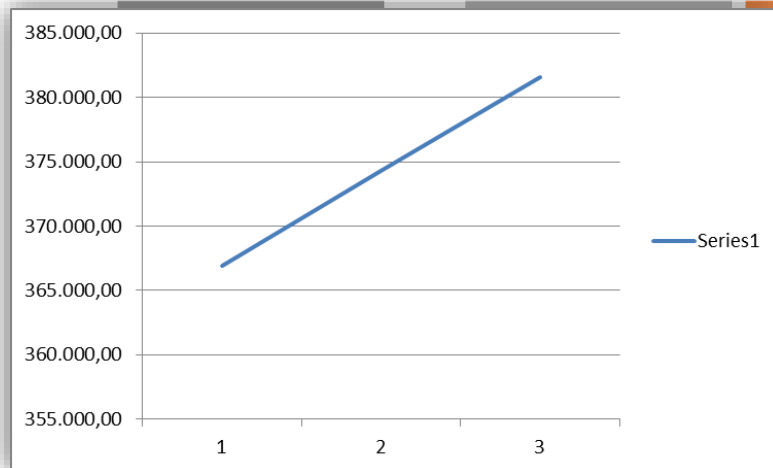
**Always
highest**

Pricing anomalies

- **Offers show unusual price patterns**
- **Price differences between offers are linear**



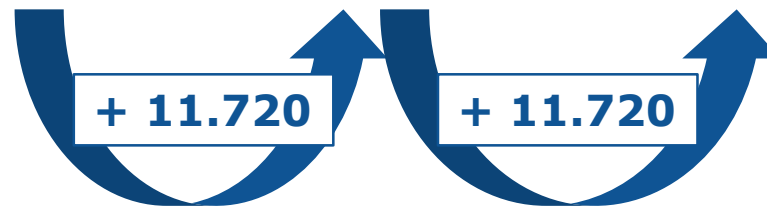
	Bidder A		Bidder B		Bidder C
Lot 1	12.542,26	+ 2 %	12.793,11	+ 4 %	13.043,95
Lot 2	17.278,41	+ 2 %	17.623,98	+ 4 %	17.969,55
Lot 3	22.958,55	+ 2 %	23.417,72	+ 4 %	23.876,89
Lot 4	9.261,30	+ 2 %	9.446,53	+ 4 %	9.631,75
Lot 5	117.289,35	+ 2 %	119.635,14	+ 4 %	121.980,92
Lot 6	7.412,36	+ 2 %	7.560,61	+ 4 %	7.708,85
Lot 7	89.577,00	+ 2 %	91.368,54	+ 4 %	93.160,08
		+ 2 %	13.509,08	+ 4 %	13.773,97
		+ 2 %	32.188,48	+ 4 %	32.819,62
		+ 2 %	46.705,00	+ 4 %	47.620,79
		+ 2 %	374.248,20	+ 4 %	381.586,40



Pricing anomalies

- **Offers show unusual price patterns**
- **Price differences between offers are linear**
- **Price differences are identical amounts**

	Bidder A	Bidder B	Bidder C
Lot 1	12.542,26	12.793,11	17.793,11
Lot 2	17.278,41	22.623,98	25.123,98
Lot 3	22.958,55	23.417,72	23.417,72
Lot 4	9.261,30	11.946,53	14.446,53
Lot 5	117.289,35	119.635,14	119.635,14
Lot 6	7.412,36	10.060,61	11.780,61
Lot 7	89.577,00	93.088,54	85.750,33
Lot 8	13.244,20	13.509,08	13.509,08
Lot 9	31.557,33	32.188,48	32.188,48
Lot 10	45.789,22	39.366,79	46.705,00
	366.909,98	378.629,98	390.349,98



Pricing anomalies

- **Offers show unusual price patterns**
- **Price differences between offers are linear**
- **Price differences are identical amounts**
- **Price differences between offers and reference prices are linear**

Reference price	Bidder A	Bidder B	Bidder C
12,70	12,06	11,93	11,81
100%	95 %	94 %	93 %

Pricing anomalies

- **Offers show unusual price patterns**
- **Price differences between offers are linear**
- **Price differences are identical amounts**
- **Price differences between offers and reference prices are linear**
- **Price quotations for individual items differ by even amounts in numerous cases**

	Bidder A	Bidder B	Bidder C	
Item 1	700	800	900	Δ 100
Item 2	1.000	1.200	1.400	Δ 200
Item 3	550	560	570	Δ 10
Item 4	5.500	5.400	5.300	Δ 100

Anomalies in the identity of the bidder

- **Fictitious/invented company**



General appearance of offers: Simplicity!

- **Simplistic layout of stationery, no logo**
- **Standard font/simplistic stamp**
- **Name of contact person not mentioned**
- **Email account generic (yahoo, gmail, etc.)**
- **Only mobile telephone number given**
- **Telephone number not in country of establishment**
- **No physical address, only P.O. box**
- **Inexistent post-code or mismatch post-code/city**



06770

Göthaer

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www.gotthard.de

SIBAGRO S.R.L.
Viale Condotti, 34
IT 45336 Roma
Tel. 0039 145.224.329

18/09/2013

To

SC Agropupu SRL
Alba Iulia (RO)

Offer

1 Double-clipper Hungaro Carrera SX-3000

44.000 €

VAT 8.800 €

52.800 €

SIBAGRO S.R.L.
Viale Condotti, 34
IT 45336 Roma

Göthaer Vertriebsgesellschaft W&U

Herrn

47533 Klevve

Wird die Jagd

Sehr geehrte

als Jagd
Tradition
geändert
Schäfer
Jagd

Gesellschaft
Sitz
Aufsichtsrat
Vorstand
Göthaer
Anrede: Dr.
Dr. Werner Gög (Vorsitzender)
Dr. Mathias Böhling (Mitgl. Dr. Harald
Thomas Leitz, Jürgen Menich, Dr. Hubert

Anomalies in the identity of the bidder

- **Fictitious/invented company**
- **Company exists but does not trade in the area required**

Producer of fruit processing lines?



Anomalies in the identity of the bidder

- **Fictitious/invented company**
- **Company exists but does not trade in the area required**
- **Anomalies in relation to the place of establishment of bidders**

Detectability

**Eligibility checks/evaluation before
contracting.**

Categories of Red Flags for the artificial creation of funding conditions

Three groups:

External/physical indicators
Structural/legal indicators
Business/accounting indicators

**NB! All indicators are about unusual
proximity!**

External/physical indicators

- **2 or more beneficiaries at same address**
- **Identical or door-to-door offices**
- **Shared facilities (e.g. same tel/fax/production)**
- **Common storage of machinery/equipment**
- **Shared commodities (water/electricity/heating)**

Structural/legal indicators¹

- **One (or more) of interlinked companies has already received IPARD funding**
- **Equipment purchased under project only makes sense to complement equipment of another**
- **Same person is manager of several interlinked companies**
- **Owners/managers of several companies are spouses or family**
- **Employees of one company are owners/ managers of another company**

Structural/legal indicators²

- **Same consultant for several IPARD projects**
- **Identical or highly similar feasibility studies or business plans**
- **Companies give each other guarantees for co-financing**
- **Same natural or legal persons shareholders of linked companies**
- **Owner/manager of one company has power of attorney for bank account of another company**

Business/accounting indicators

- **Recipient company works exclusively for companies to whom it is linked (invoice trail)**
- **Prices below market standards**
- **No full evidence for cash-flow to pay invoices**
- **Linked companies have identical or complementary business purposes**
- **Single company has been split into two and both continue similar/complementary operations**

Detectability

Typically in *ex post* controls.



Red Flags in procedures and audit

Training for staff concerned

Red Flags freely accessible

Integrated into administrative and audit check-lists



Thank you for your interest!

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