



## Contract and Procurement Fraud and Money Laundering Case Study

### Introduction and factual scenario

The Government of FAROFFISTAN is engaged in a major road building effort known as the Interior Roads Project, with an estimated total cost of more than the equivalent of US\$1 billion over the next 10 years.

The Government has established a Project Management Unit (the PMU) to administer the project. It is headed by Mr. RAOL ABETA, the Project Manager, a senior official of the National Roads Agency and an influential member of the ruling political party. Among his other duties, Mr. ABETA chairs the PMU's Bid Evaluation Committee that recommends all of the Project's contract awards.

Among the primary contracts awarded by the PMU is a ten year contract to design, build and maintain a 200 kilometer, two lane paved road from the capital city to the northern border (the Northern Border Contract). A contract with a foreign construction company has been signed and work has commenced on the project.



## Document 2

The Government's Anti-Corruption Commission (ACC) received an anonymous email some time ago, just after the Northern Border Contract was awarded, from [concerncitizen@hotmail.com](mailto:concerncitizen@hotmail.com), saying:

*“Abeta, the Project Manager in the Interior Road Development Program is interfering in the bidding process and steering contracts to high priced unqualified foreign firms. Look at the award of the Northern Border road contract - it is far too expensive, the company gets all the contracts even though its work is poor and slow. Everyone knows what is going on but are afraid to say anything. It will get worse unless you do something about it for once.”*

### Question:

1. How would you respond to the complaint?

See Step One of the Basic Investigative Steps in Complex Cases in the Guide, “Begin the Case”



### Document 3

The complaint was ignored for several months, until after the ACC received several other complaints about corruption in the project.

An ACC investigator then replied to the email message:

*Thank you for your information.*

*I have some questions:*

- 1. How do you know this?*
- 2. What contract are you talking about?*
- 3. What are the details?*
- 4. Can you meet at our ACC offices in Capital City this week? Give me your name so I can arrange a pass for you.*

He received the following reply:

*“Why did you wait so long? It is risky for me to meet and apparently it’s not that important to you. Look at the procurement documents – it’s all there. Do your job for once and save our country from more crumbling roads and government theft.”*

The complainant then closed his or her Hotmail account.

### Questions:

1. How do you think the ACC investigator handled the complaint?
2. How would you have handled it?



### Answer to Document 3

The investigator made a number of mistakes:

1. He or she waited too long to respond to the whistleblower's complaint
2. His questions did not reflect any preparation before responding
3. He immediately asked to meet and asked for a name, ignoring the whistleblower's apparent desire for confidentiality
4. He or the ACC apparently had ignored earlier complaints, leading to a lack of confidence

All of the above indicated a lack of professionalism and interest in the case, which discouraged the cooperation of the current and other whistleblowers.

See Step One of the Basic Investigative Steps: "Begin the case"



#### Document 4

The investigation was reassigned to a more competent investigator. He made a discrete request to the Inspector General's Office of the National Roads Agency to assist it in collecting the relevant procurement records for the Northern Border Contract.

The investigators asked to see all drafts, final and revised versions of the following records related to the construction contract:

1. Project preparation documents and cost estimates
2. Request for Expressions of Interest
3. Evaluation Report of the Expressions of Interest
4. Invitation for Bids
5. List of all firms that purchased the bid packages
6. All submitted bids, including technical and price proposals, with bid securities
7. Bid Evaluation Reports with notes of committee members
8. Contract signed with the selected company and amendments
9. All change order requests and approvals
10. All invoices, supporting documents and payment records
11. All related correspondence and communications (emails, etc.)
12. All complaints received

#### Questions:

1. What do you think of the investigator's request? Did he ask for too much? Not enough?
2. What would you have asked for?
3. What should the investigator look for in the documents he obtained?



## Answers to Document 4

1. What do you think of the investigator's request? Did he ask for too much? Not enough?

The document request is relevant and comprehensive, but the investigator might have requested the production of the documents in stages, with the most important documents requested first, e.g., the Bid Evaluation Reports and complaints, to reduce the burden on the whistleblower and expedite the document production process.

The investigator might also have requested the documents for the supervision contract, including primarily the monthly supervision reports, to identify evidence of possible fraudulent implementation by the contractor. This could be used as leverage to obtain cooperation later in the underlying corruption case.

2. What should the investigator look for in the documents he obtained?

He should look for (1) information that tends to corroborate or rebut the complaint and (2) indicators or evidence of other misconduct in the contract, using the Case Theory Approach as explained in the [Guide](#). The investigator should also try to identify potential honest, disinterested witnesses who can assist in the interpretation of the documents and perhaps identify other areas of misconduct.

See [Step Two](#) of the Basic Investigative Steps: "Evaluate the Allegations or Indicators"

## Document 5

The investigators carefully scrutinized the Northern Border Contract procurement documents and found:

1. Nineteen companies expressed interest; six companies were shortlisted, and four companies submitted bids
2. Of these, the lowest bidder met the qualification criteria, but was disqualified by the Bid Evaluation Committee (the BEC), chaired by the Project Manager, based on an apparent error in its bid validity date
3. The BEC wrote a report recommending that the contract award go to the second lowest bidder, but the Project Manager and other senior National Road Agency officials objected, saying that the bidder was occupied to its full capacity on other projects
4. The BEC then submitted a revised evaluation report recommending that the contract be awarded to the third lowest bidder, a foreign company, which the Roads Agency approved
5. The Road Agency's cost estimate for the 200 kilometer contract was the equivalent of US \$90 million. The lowest bidder's price was US\$ 93.5 million, the second lowest bidder was US\$ 103 million, and the third lowest (the contract price) was US\$121 million
6. The awarded contract price was more than 30% over the cost estimate
7. The winning bidder affirmed in its bid documents that it did not engage an agent or pay any fee in connection with the preparation or submission of its bid.

The procurement files contained a number of communications from the then Interior Roads Project Procurement Director, who also sat on the BEC, disagreeing with the evaluation of bids and the award to the third lowest bidder. The emails revealed that the Procurement Director resigned shortly after the Northern Border contract award to take a position in the private sector.

The investigator requested an interview with the former Procurement Director, who agreed to meet confidentially. The investigator asked him to bring any retained Project-related documents or emails. He provided the following information regarding the selection of contractor for the Northern Border contract:

*Mr. Abeta, the Project Manager insisted that the lowest bidder be disqualified because of an error in its bid validity date. The witness and other members of the Bid Evaluation Committee (BEC) disagreed, and*

*believed that the mistake was inadvertent and inconsequential and that the Procurement Rules clearly provided that the bidder should have been allowed to correct the date. Mr. Abeta insisted, however, that the bidder be disqualified, and the other Committee members reluctantly acquiesced.*

*Mr. Abeta and Senior Roads Agency Officials next objected to the BEC's recommendation that the contract be awarded to the second lowest evaluated bidder because of its alleged inadequate capacity, saying that all of its road building equipment and staff were already occupied on other local projects.*

*The Procurement Director and other BEC members responded that the second lowest bidder had nearly finished its prior project– on time and within budget – and would be available with its equipment to start on the Northern Border Road contract on schedule. The witness said this led to a very heated discussion between the Procurement Director and other BEC members, in which Mr. Abeta eventually threatened to fire the Procurement Director. As a result the Procurement Director decided to resign and look for another job.*

*The Procurement Director added that the winning bidder had performed poorly on prior road projects in the country, and that the losing lower bidders filed written complaints with the Roads Agency, which Mr. Abeta directed be discarded.*

*The Procurement Director said that Mr. Abeta often travels to London, where he has heard that he and his wife reside part-time and his two college aged children attend UK universities. He added that Mr. Abeta often socialized with the local manager of the winning contractor.*

## Questions

1. What leads or evidence of possible wrongdoing did the investigator find in the procurement documents?
2. What other steps could be taken at this stage of the case?



## Answers to Document 5

Q. What leads or evidence of possible wrongdoing did the investigator find in the procurement documents?

The finding that only six companies of the nineteen that bought the bid packages submitted bids could indicate that the specifications were too narrow (to limit competition) or that industry members expected that the bidding process would be rigged to favor certain bidders, which are leads to follow up

There are strong indications that the Project Manager unduly interfered in the bid evaluation process, which tends to support the complaint and suggests possible corrupt influence

The information about the Project Manager's travel to the UK and his family's residence there provides potential leads for a financial investigation of the Project Manager. The Project Manager's socialization with the local manager of the winning bidder also raises concerns of improper influence in the selection process.

Q. What other steps could be taken at this stage of the case?

Another step would be to request background information on the firms and officials involved in the potential misconduct. (This might be done simultaneously with the request for the Road Agency procurement documents.) The request should include (1) Road Agency and PMU employment files for the Project Manager, (2) government records, such as FIU, customs and immigration records for the Project Manager, his spouse and children, and (3) public records, such as company business reports, as described in more detail ahead and in the supporting materials

See [Steps Two](#) and [Six](#): Collect and review the relevant procurement documents and begin the external investigation.



## Document 6

The investigator obtained employment records for the Project Manager from the PMU, including:

- a. Employment application
- b. Personnel file
- c. Salary records
- d. Telephone records
- e. Travel and expense records
- f. Financial disclosure and conflict of interest forms
- g. Business email and computer hard drive records

The investigator reviewed the documents and found:

1. The Project Manager earned a salary the equivalent of \$12,000 USD monthly, beginning when he was hired three and one-half years earlier, and continuing to the present
2. According to his employment application his monthly salary for his previous six years employment with the National Roads Agency ranged from \$7,500 USD to \$9,500 USD; his wife was not employed and he had two children, ages 19 and 21
3. The Director had 16 telephone calls with the winning contractor during the bidding and bid evaluation process, when such contacts are forbidden under the procurement rules
4. During the past year the Project Manager made 235 telephone calls to a UK telephone number. The phone number and UK address were listed in the Project Manager's HR file as the emergency contact information for his wife
5. Informal inquiries with UK counterpart law enforcement authorities revealed that the UK address was located in Kensington, an upscale section of London, that a foreign trust was listed as the owner of the property, and that based on average property values in the area the house had a market value of about £2.5 million. Based on this information, the investigators asked their UK Law Enforcement counterparts to identify any UK bank accounts in the names of the Project Manager, his wife or



- children and the source of funds used to pay for the home and the children's educational expenses.
6. The Project Manager did not file the required annual financial disclosure or conflict of interest forms since being employed by the PMU
  7. The investigators were informed that they could not access the Project's Manager's email or computer hard drive records because there was not yet adequate predication – evidence of wrongdoing - to support a request to the Road Agency or a Court Order to produce such records.

### Questions

1. What, if any, useful information did you obtain from the above records?
2. What other employment records might you obtain from the PMU?

Next steps?



## Answers to Document 6

Q. What, if any, useful information did you obtain from the above records?

The Project Manager's current and previous household salary information will be needed if the investigators do a net worth investigation to show illicit enrichment or to prove the receipt of corrupt payments circumstantially

The telephone calls to the winning bidder indicate possible leaking of bid information and some additional evidence of bid rigging, the proof of which would be a necessary element of corruption offense and the predicate for the request for formal international legal assistance

The phone calls to the wife's UK number led to the discovery of the wife's occupancy of the expensive property in the UK, confirming the information received from the former Procurement Director

The failure to file the Annual Conflict of Interest and Financial Disclosure forms could indicate an undisclosed conflict or receipt of corrupt funds.

Q. What other employment records might you obtain from the PMU?

Other records might include voice mail records, fax and mail delivery logs, electronic entry and exit records for the PMU premises to show possible contacts with employees of the winning bidder, etc.

See [Step Three](#): Conduct Background checks on the firms and individuals involved in the case.



## Document 7

The investigator requested the following government records for the Project Manager, Mr. Abeta, his wife and children:

1. Reports and referrals from Financial Investigations Units
2. Suspicious Activity and Currency Transaction Reports from financial institutions
3. Immigration and border crossing records
4. Customs records and currency declarations

The investigator found no FIU, Suspicious Activity or Currency Transaction Reports filed on the Project Manager.

The investigator confirmed from Immigration records that the Project Manager, his wife and children traveled frequently to and from London in the past two years, and did not file any currency declarations.

## Next steps?

See [Step Three: Conduct Background checks on the firms and individuals involved in the case.](#)



## Document 8

The investigator checked internet sites and public records for the winning contractor, the Project Manager and his family members and found:

1. The winning contractor was a large foreign state owned company
2. According to press accounts, it had recently been accused in road projects in other countries of corruption and fraudulently misrepresenting its prior construction experience
3. Local real property records reflected that Mr. Abeta had purchased his local residential property in 2010 and that it was fully paid for; the cost of the property appeared to be disproportionate to the Project Manager's income history
4. A drive by inspection of the Project Manager's local residence revealed that substantial recent improvements had been made to the property.

## Question

1. How could this information be used in the investigation?



## Answers to Document 8

The press accounts about the prior investigations of the winning bidders should alert the investigators to check for possible misrepresentations in the bidding documents (this can be useful as leverage in the corruption aspect of the case);

The recent purchases of the expensive UK house and local house provide additional circumstantial evidence of possible corrupt payments that will need to be addressed in the case.

The improvements to the real property could provide to leads direct or circumstantial evidence of corrupt payments to the Project Manager, e.g., the investigator might be able to obtain information on how the improvements were paid for from the local contractor that did the work.

See [Step Three](#).

## Document 9

When the investigators completed the document review and background checks, they conducted voluntary interviews with and requested documentation from other participants in the procurement process, including companies that bought bid packages but failed to bid, bidders that were disqualified, losing bidders and other witnesses identified in the procurement documents. These witnesses confirmed the information provided by the former Procurement Director.

The investigators next simultaneously executed search warrants (or requested production orders or exercised contract audit rights) at the contractor's local project office and its corporate headquarters in a foreign jurisdiction with the assistance of law enforcement authorities there, calling for the seizure (production) of the following documents, including all drafts, notes, revisions and final versions, in electronic and soft copy:

- a. Bid preparation documents
- b. Retained copies of its submitted bid and contract
- c. Project time and expense records and supporting documents
- d. Project accounting and bank records
- e. Correspondence files, email and computer hard drive records
- f. Agent agreements and subcontracts

The investigators examined the documents and found:

1. The contractor engaged a local agent to assist it in preparing its bid and to provide local logistical support for a fee of 8.5% of the contract value, payable only if the contractor won the contract (contrary to its denial in its bid)
2. The agent's boiler plate, two page contract, which provided that the agent would assist in the preparation of the contractor's bid, was dated two weeks after the contractor submitted its bid
3. The company previously had paid agents engaged to assist in the bidding process for other contracts 4.5% to 5% of the contract values
4. The contractor's file reflected no work product received from the agent, not even an email, other than to request payment

5. The contractor paid two invoices, specifying only “for services rendered,” from the agent totaling the agreed fee; the first immediately after the Bid Evaluation Committee (BEC) revised its initial evaluation report to recommend that the contract be given to the contractor, the third lowest bidder, and the second immediately after the contract signing
6. Each of the payments went to a bank account in another jurisdiction in the name of the agent’s company, Procurement Advisory Services
7. The investigators determined through on-line research that Procurement Advisory Services had been established three years before in the British Virgin Islands as an International Business Company (IBC). They could find no other records or information on the company on the internet or elsewhere; BVI authorities confirmed the company’s incorporation date but could provide no further relevant information on the company.

Based on the records, the investigator interviewed the local employees of the winning bidder who were responsible for preparing its bid and hiring and paying the agent. They obtained the following information:

*Mr. Abeta recommended that the company hire the agent, with whom it had no prior relationship.*

*The agent’s fee was higher than in other agency agreements because he provided “very useful” verbal advice on how to prepare the bid and other business issues. The witnesses were unable to recall any specifics about this advice or to producer any written work product from the agent. The witnesses could not explain the discrepancy between the date of the agent’s contract and the date the bids were submitted.*

*A junior employee of the contractor inadvertently failed to disclose the agent agreement in the company’s bid, due to the rush of completing the bid preparation. The company has no compliance policy but it forbids corrupt payments by its staff or agent, although there was no such language in the agent’s contract.*



## Questions

1. Do you believe the investigator had adequate probable cause to obtain a search warrant at this stage of the case? If so, what evidence would you have cited in support of the application?
2. What is the significance of the information from the winning bidder?



## Answers to Document 9

1. Did the investigators had adequate probable cause to obtain a search warrant at this stage of the case? If so, what evidence would you have cited in support of the application?

Group discussion; cite the whistleblower's complaint, the evidence of bid rigging, the irregularities in the agent's contract and the recent purchase of expensive properties by the Project Manager.

2. What is the significance of the information from the winning bidder?

The circumstances surrounding the purported consulting contract are very suspect, and the agent's fee is likely the conduit for corrupt payments; the failure to disclose the agent's fee in the bidding documents might be cited as a fraudulent practice if done deliberately.

See Steps Four and Six: Collect and review documentation from the firms suspected of paying bribes and interview related witnesses.



## Document 10

The investigators requested informal legal assistance from the second foreign jurisdiction for information on the account to which the agent wired 85% of his fee, including information on:

- a. Account opening, signature authority and ownership information
- b. Deposit items and disbursements
- c. “Know Your Customer” (KYC) files and suspicious activity reports
- d. FIU Reports on the agent, Procurement Advisory Services and their accounts

The request revealed that 50% of the funds wired to the Procurement Advisory Services account were withdrawn in several currency transactions, and the balance wired to a Hawala agent in yet another country.

The participating bank did not file any SARs or CTRs regarding the cash withdrawals.

The agent agreed to a voluntary interview with the investigators. The agent explained that the cash and Hawala disbursements from the Procurement Advisory Services account were to support extended family members and legitimate charitable organizations. He declined to provide any documents or other evidence to corroborate his claims. Based on the other evidence in the case, the investigators expressed doubt that the agent’s version of the events was entirely true, and solicited his cooperation in the investigation in exchange for immunity from prosecution, which he also declined.

## Next steps?

See Steps [Seven](#), [Six](#) and [Eight](#): Trace illicit funds, interview related witnesses and attempt to obtain the cooperation of an inside witness.



### Document 11

The investigators requested formal legal assistance from UK law enforcement authorities to obtain the documentation regarding the purchase of the house in London and to interview the relevant parties.

From these documents and interviews the investigators learned that:

1. The wife purchased the house from a trust settled by an auditing and accounting firm that had the contract to do the annual financial audit of the National Road Agency
2. The price the wife paid for the property was significantly below the market price for similar properties in the area, and below what the trust paid for the property a year earlier
3. The wife paid for the property with a 10% down payment and the balance with a mortgage from a bank in another foreign jurisdiction.

### Next steps?



Answer to Document 11

*Request UK and other foreign authorities to freeze accounts and sale of property?*

See Step [Seven](#): Collect and analyze financial records related to the suspect government official and trace illicit funds; also illustrates basic money laundering techniques.



## Document 12

The investigators requested formal legal assistance from the foreign jurisdiction where the bank that provided the mortgage to the wife is located and requested:

- a. The lending bank's complete file for the purchase mortgage for the UK house, including the application, financial statements, credit reports, property appraisals, binder payments, loan documents, liens and payment records
- b. Complete information regarding any bank accounts held by the wife in her maiden or married name, the Project Manager or their children
- c. The bank's "Know Your Customer" (KYC) files and suspicious activity reports
- d. FIU reports

The investigators reviewed the documents and learned that the wife had opened an account in the name of a real estate investment trust at the lending bank with substantial cash deposits at the time of the mortgage application, which were used as a source of funds to pay the loan. These transactions occurred shortly after the winning bidder paid its agent his fees.

The responsible bank officials were interviewed and stated that the wife explained that the source of the cash deposits were several upscale clubs and restaurants that she owned that had primarily cash revenue. The bank did not request and the wife did not provide any documentation of her claims.

Next steps?



Answer to Document 12

*Request foreign authorities to freeze accounts?*

See Steps [Five](#) and [Seven](#): Collect and analyze financial records related to the suspect government official and trace illicit funds; illustrates basic money laundering techniques

### Document 13

While the many foreign legal assistance requests were pending, the investigators issued search warrants (or production orders) for the domestic financial records for the Project Manager, his wife and children, including:

- a. Bank account records
- b. Real property purchase and sale records; records of improvements
- c. Credit card records
- d. Loan records
- e. Personal telephone records
- f. Email and computer hard drive records

The investigators reviewed the documents and found:

1. The Project Manager had only one disclosed bank account, held jointly with his wife, which received his monthly salary payments and expense reimbursements
2. There were frequent cash deposits to the account in local currency of \$1,000 to \$2,000 from unknown sources
3. A spreadsheet prepared by the investigators listing the monthly household expense payments revealed that for the previous two years the Project Manager and his wife stopped paying many of their monthly utility, transportation, food or other recurring expenses from his one disclosed bank account
4. The Project Manager's average monthly expenses for the prior two years were:
  - House payment and utilities: \$9,000 USD equivalent
  - Transportation (automobile, etc.): \$2,800 USD equivalent
  - Household expenses (food, necessities, insurance, etc.) \$5,000 US equivalent
  - Credit card payments: \$6,700 USD equivalent

The investigation revealed that just these four expense items were more than double the Project Manager's disclosed pre-tax income.

### Question

1. What is the significance of this information?



### Answer to Document 13

The unexplained cash deposits and inflated expenses indicate that the Project Manager has sources of cash and other income for which the investigators must account. The Project Manager should be interviewed and asked to explain the source of the cash deposits, the absence of payments of the recurring household expenses and the source of funds to pay the inflated expense amounts.

See Step [Seven](#): Collect and analyze financial records related to the suspect government official and trace illicit funds



#### Document 14

The investigators examined the Project Manager under oath; he provided the following information:

*His wife is a famous former model and entertainer who still receives numerous requests to perform at private entertainment functions, many hosted by wealthy businessmen, celebrities and senior government officials in several countries.*

*She was typically paid in cash, which she deposited to her account in the bank that provided her mortgage or used to pay the family household expenses and their children's educational expenses.*

*Some of her patrons were unpopular public figures the identities of which could cause her some embarrassment if disclosed. That is why he listed his wife as unemployed in his employment file, and why she claimed, falsely, to her bankers that she owned several restaurants and clubs. The Project Manager declined to provide any further information based on his wife's right to privacy.*

*He had nothing to do with the purchase of the house in London, which is in his wife's name and which he uses only occasionally.*

*He added that he is not involved at all with the hiring, supervision or payment of the accounting firm that sold the property to his wife, and was not aware that the firm offered the house for sale at discounted price.*

The investigator's attempted to interview the responsible persons at the accounting firm, but they refused to be interviewed on the advice of counsel.

Next steps?



#### Answer to Document 14

Note the differences in the explanations for the wife's income (she was not employed according to the Project Manager's HR file; she was the owner of several clubs and bars according to the bankers that lent her the money to buy the London house, and was a model and popular entertainer according to the Project Manager), the investigators will have to do a thorough investigation to verify or rebut the alleged explanation for the source of the wife's cash.

The below market price of the UK house by the government's audit firm raises another issue that needs to be addressed

See Step Nine of the Basic Investigative Steps: Interview the primary subject.



## Document 15

### Questions for group discussion:

1. What offenses, criminal and administrative, can you now prove?
2. What, if any, additional investigative steps should be taken to prove other offenses?
3. Which companies and individuals would you name as defendants in these actions?

See [Step Ten](#): Evaluate the evidence, identify and rebut potential defenses and prepare final reports or accusation.