



RED FLAGS OF FRAUD

GENERAL

This list of **red flags** applies to various categories of fraud and should not be considered all-inclusive.

- ⌘ Contractor delays or refuses to provide access to records
- ⌘ Contractor files, reports, data, or invoices are “missing”
- ⌘ Contractor has experienced financial difficulties or layoffs
- ⌘ Key personnel have been reassigned or terminated
- ⌘ Documents have been altered
- ⌘ Charges for services not rendered
- ⌘ Product substitution



BRIBERY, KICKBACKS, AND CONFLICTS OF INTEREST

Bribery: Individuals offer, give, receive, or solicit items of value to influence the actions of an official or other person in charge of a public or legal duty.

Kickbacks: Contractors or subcontractors who give something of value in exchange for preferential treatment.

Conflict of interest: Contracting or oversight officials with an undisclosed interest in a contractor doing business with the government.

RED FLAGS OF BRIBERY, KICKBACKS, AND CONFLICTS OF INTEREST

- ⌘ Government personnel discussing possible employment with a contractor or subcontractor for themselves or a family member
- ⌘ Overly friendly relationships between government employees and contractors
- ⌘ Improperly disqualifying the bids or proposals of qualified contractors
- ⌘ Government personnel or their families acquiring stock or a financial interest in a contractor or subcontractor
- ⌘ Unexplained increases of business with one contractor
- ⌘ Employees living beyond their means
- ⌘ Employment of family members by a contractor
- ⌘ Socializing outside of the work environment



COLLUSION

A conspiracy between two or more persons where competitors set prices they will charge for goods or services, set a minimum price they will not sell below, or reduce or eliminate discounts.

RED FLAGS OF COLLUSION

- ⌘ Competitors announce price increases at the same time, for the same amount, or take turns increasing prices
- ⌘ Competitors all offer the same discount and refuse to negotiate discounts
- ⌘ All suppliers' prices appear uniform and suppliers refuse to negotiate those prices
- ⌘ Competitors have same pricing for line items
- ⌘ Market dominated by a few major players
- ⌘ Markets involve standardized products



BID RIGGING

Contractors agree to submit complementary high bids to allow preselected contractors to win. The limiting of competition allows for manipulating higher costs to the government and more profit for the contractors.

RED FLAGS OF BID RIGGING

- ⌘ Apparent connections between bidders: common addresses, personnel, email addresses, or phone numbers
- ⌘ Bids greatly exceed the agency's estimate of contract value or exceed comparable bids by the same companies in other areas similar in demographics
- ⌘ Same bidders always bid against each other or never bid against each other
- ⌘ A significant gap exists between the winner's proposed pricing and losing bidders' pricing
- ⌘ Companies submit bids with identical individual line items or lump sums
- ⌘ Losing bidders hired as subcontractors
- ⌘ Winning bidder awards subcontracts to one or more of the losing bidders
- ⌘ All bids are consistently high

COST MISCHARGING

When a contractor charges the government for costs that are not allowable, reasonable, or allocated directly or indirectly to the contract.

RED FLAGS OF COST MISCHARGING

- ⌘ Timecards are made out by the supervisor and not by the individual employees
- ⌘ Proposed costs do not seem directly related to the contract under which they were submitted
- ⌘ Documents (such as purchase orders and timecards) appear to be altered
- ⌘ Material specified in the contract exceeds that which is required for the job
- ⌘ Delivery documents show addresses different from the specified job site
- ⌘ Costs billed greatly exceed estimates

PRICE REDUCTION VIOLATIONS

When the contractor fails to notify the government of pricing changes while the contract is in effect.

RED FLAGS OF PRICE REDUCTION VIOLATIONS

- ⌘ Data for the period examined does not tie to financial statement information without a viable explanation of deviation
- ⌘ Contractor failed to disclose favorable customer agreements, including rebates
- ⌘ Better pricing is available on the open market for comparable products or services
- ⌘ Contractor failed to update pricing data
- ⌘ Reoccurring or standard discounts or concessions are found that were not disclosed



PRODUCT SUBSTITUTION

When a contractor delivers products or services that do not meet contract specifications without the government's prior consent.

RED FLAGS OF PRODUCT SUBSTITUTION

- ⌘ Contractor refusal to provide documentation regarding manufacture, shipment, or production of products
- ⌘ Irregularities in signatures, dates, or quantities on delivery documents
- ⌘ Tests performed by supplier, using its own resources
- ⌘ Discrepancy between the product's description and actual appearance
- ⌘ Contractor attempts to limit or avoid inspection of goods or services
- ⌘ Country of origin not shown or removed
- ⌘ Product only produced in a non-trade complaint country
- ⌘ Signs that test results may be falsified
- ⌘ Missing or altered documentation related to inspection or shipment
- ⌘ High rate of product failures, rejections, or returns
- ⌘ Resubmission of previously rejected goods
- ⌘ Complaints by customers related to purchased products or services

REPORTING FRAUD

Report fraud to the OIG hotline at www.gsaig.gov/hotline or 202-501-1780.

