

Global governments' urgent COVID-19 procurements are higher risks for corruption and fraud



Fraudsters love a good crisis. Governments worldwide established procurement procedures during COVID-19, but quick actions to save lives often bypassed standard safeguards. Here's how government agencies during future disasters can limit and/or prevent rampant corruption and fraud. By Sheryl Goodman and Tom Caulfield, CFE

When the world shut down last year because of COVID-19, governments declared national emergencies and urgently began procuring hospital equipment, medical ventilators, hand sanitizers, face masks and health services to meet immediate needs.

In Brazil, for example, the government procured more than 80% of COVID-19 goods and services with ad-hoc emergency rules without any competitive procedures. Procurement schemes like theft of medicines and medical supplies, price gouging, embezzlement and bribes paid to government officials to obtain contracts in the health sector are all long-term corruption and fraud risks, which Brazil reported as concerns during COVID. (See “Responses to the G20 Survey for the Good Practices Compendium on Combating

Corruption in the Response to COVID-19,” from the G20 Saudi Arabia 2020 Riyadh Summit,” tinyurl.com/2bttb6jx, and “600 days of government: CGU highlights key actions during the pandemic,” Brazil’s Federal Comptroller General, Aug. 21, 2020, tinyurl.com/7648363w.)

But it wasn’t just in Brazil where the state rushed to garner emergency supplies for its citizens. This level of emergency procurement activity was occurring across the globe, and not always with the idea of preventing fraud foremost in mind.

The Open Contracting Partnership (OCP) estimates that by July 2020 at least \$100 billion had been spent on pandemic-related procurements. (See “Lessons from the COVID-19 pandemic. Findings and recommendations for better emergency procurement,” OCP, tinyurl.com/2xmwumv7.) The OCP is an independent, not-for-profit spun out of the World Bank. It’s designed to open and transform government contracting worldwide, according to the organization. (See open-contracting.org/about.)

Tyranny of the urgent

It’s understandable that with such an intense sense of urgency, governments would focus more on emergency care of its citizens and less on the traditional safeguards for the prevention of corruption and fraud. However, they unintentionally created greater opportunities for criminal behavior, which has led — and continues to lead — to massive corruption, fraud, waste and abuse of COVID relief funds.

Examples include frauds in vaccine distribution, stealing of influenza medication, fake vaccines sold and administered, and people in positions of power or wealth attempting to get priority access to vaccines. South African police reported seizing some 400 ampoules — equivalent to around 2,400 doses of fake COVID-19 vaccines following a global alert issued by INTERPOL that warned vaccines would be a prime target for criminal networks. (See “Fake COVID vaccine distribution network dismantled after INTERPOL alert,” March 3, tinyurl.com/d7ybbjmj.)

Media reports throughout the world have also identified countless examples of people falsely representing themselves to fraudulently access trillions of dollars in economic relief from government programs.

Meeting the urgent needs presented by the pandemic and maintaining the necessary flexibility and agility to do so, while also implementing effective integrity controls in procurement procedures, is more than challenging. Governments must balance the need to act without delay (to save or preserve life, for example) with meeting their overarching public-sector obligations to act lawfully, reasonably and with integrity.

In “Responses to the G20 Survey for the Good Practices Compendium on Combating Corruption in the Response to COVID-19” the Australian Criminal Intelligence Commission’s corruption risk assessment of the COVID-19 pandemic response reported these risks:

1. The pandemic response offers unique opportunities for corruption at a heightened level.
2. Corruption risk will be different during the immediate crisis, planning and recovery phases.
3. Organized criminals could seek to access official information for insider trading or seek to influence officials involved in pandemic response-related government contracts.
4. Individual officers will use their decision-making powers to commit payment fraud. This could involve fraudulently applying for entitlements for their own benefit or approving claims for businesses and individuals not eligible for payments.
5. Some departments, agencies and business areas will face an increased risk of corruption; key areas include those involved in planning, coordinating and communicating responses.
6. Some trusted private-sector workers will also face personal financial pressures from the pandemic.
7. Increased levels of public-sector staff working from home may weaken existing corruption controls.

Speed and agility of emergency procurement brings risk

Governments need to install anti-corruption and fraud protocols when they hasten emergency procurements. Last year, OCP launched the COVID-19 Action Research Program to identify specific corruption/fraud risks with emergency procurement. (See the OCP “Lessons from the COVID-19 pandemic. ...”) Not surprisingly, it found that emergency procurement accelerated the procurement process. But OCP also found governments:

- Used substantially reduced checks and balances, which increased the risk for improper procurement activities.
- Further increased risks by a lack of consistent and timely procurement data on emergency purchases.
- Had limited information and understanding of suppliers' true capacities to deliver required service/goods.

Government actions to reduce public procurement risks

As the urgency to respond to the pandemic fades, governments are taking steps to ensure fair, transparent and equitable contracting processes for this and future health crises. For example, the Office of Government Procurement of Ireland published an informational document on good practices for governmental contracting authorities during the COVID-19 outbreak. [See "Information Note – Covid-19 (Coronavirus) and Public Procurement," Ireland's Office of Government Procurement, updated March 22, tinyurl.com/4b3chta9.]

The U.K.'s Cabinet Office issued a procurement policy note on "Supplier relief due to COVID-19" in March 2020. (See tinyurl.com/248dh6jt.) That policy note calls for contracting authorities to pay all suppliers as quickly as possible to maintain cash flow and protect jobs, while also working with them to ensure transparency. In turn, it requires suppliers in receipt of public funds related to COVID-19 to operate according to an "open book" policy. This means they must make any data available to contracting authorities as requested — including information from ledgers, cash-flow forecasts, balance sheets, and

profit and loss accounts — to demonstrate that payments have been made to suppliers under contract in the intended manner.

Recommendations to enhance integrity in emergency procurement

Procurement Integrity — fair, honest, transparent and legal contracting — should always be the foundation of all public procurement but especially during crises.

The Organization for Economic Co-Operation and Development (OECD) recommends carrying out the following steps to ensure integrity in COVID public procurement processes. (See “Public integrity for an effective COVID-19 response and recovery,” OECD, April 19, 2020, tinyurl.com/vuz9nfhy.)

- Enforce basic documentation and record-keeping.
- Develop detailed guidelines on procurement strategies under a crisis.
- Put greater emphasis on contract management.
- Favor existing collaborative procurement instruments such as framework agreements.
- Ensure maximum openness of information, including open data.
- Set up a central price and supplier tracking system for key products and services.
- Subject all emergency procurement processes to audit and oversight.

The World Justice Project (WJP) published the July 2020 “Corruption and the COVID-19 Pandemic,” which says that speed in procurement doesn’t need to come at the expense of accountability. (See tinyurl.com/3wchr96w.) WJP recommends:

- Public procurement mechanisms should be relaxed only when a clearly defined urgency test is met and documented, and only to the extent necessary.
- Auditing of contracts needs to occur, regardless of how expedited the procurement process.
- Transparency of all public contracts under emergency procedures should be promptly published openly.
- Institutions designed to provide oversight and accountability of public actors should be protected and reinforced.
- The right to information should be honored to the extent practicable and supported through proactive government publication of information.

Save lives *and* prevent fraud

Preventive measures are key to controlling corruption and fraud risks in emergency situations. The most basic of these measures is ensuring that government establish, understand and enforce emergency procurement procedures. All government personnel with the authority to influence emergency procurement decisions, whether they have “procurement” in their job titles, should receive basic training in purchasing procedures.

Because fraudsters will always take advantage of a crisis, government entities need to install sound anti-corruption strategies and methods to not just protect needed vital goods and services but also safeguard the availability of financial funds to allow those suffering economic hardship to survive.

SIDEBAR

Commonsense helpful tips for government procurement officials

- Be wary of vendors who use general email addresses, such as@gmail.com, @yahoo.com, @qq.com, or who lack websites or whose websites lack detail.
- Be cautious of vendors that promise quick delivery times and ask questions about the logistics of shipment and delivery.
- If possible, try to avoid making any payments in advance of delivery.
- Where possible, obtain samples of products prior to purchase and keep an eye out for counterfeit logos or redacted certifications.
- Gain greater insight into — and the risks of — your supply-chain systems.
- Capitalize on organizational electronic data not just inside your contracting system but also in databases that contain human capital, security, vendor management and financial information.
- Assure that contracts executed with private entities include anti-corruption/anti-fraud clauses, which will enable audit mechanisms and punishment systems if defaults occur.
- Consider simple software solutions to track supplies and payments, compare bids and prices, and keep records of suppliers.