

COVID-19 FRAUD BULLETIN



★★ OFFICE of ★★
INSPECTOR GENERAL

UNITED STATES DEPARTMENT OF
HOUSING AND URBAN DEVELOPMENT

➔ HOW TO IDENTIFY ANTICOMPETITIVE BIDDING SCHEMES THAT MAY OCCUR IN COVID-19-RELATED PROCUREMENTS

July 2020

Through the Coronavirus Aid, Relief, and Economic Security (CARES) Act, Congress has provided more than \$12 billion to the U.S. Department of Housing and Urban Development (HUD) to assist homeowners, renters, landlords, and communities impacted by the pandemic caused by the coronavirus disease of 2019 (COVID-19). As with most major disasters, unscrupulous individuals and companies will likely find a way to take advantage of the resources and aid the Federal Government designates in response to and for recovery from this health emergency. The availability of such large amounts of funding will attract dishonest people, who are determined to steal government funds designated to help individuals and communities for their own personal gain. HUD's Office of Inspector General (OIG) wants to make these schemes less likely to occur by sharing knowledge on how to identify such unscrupulous actors and stop their illegal schemes before they start.



➔ WHAT IS ANTICOMPETITIVE BIDDING?

Anticompetitive bidding is an agreement between individuals or entities involved in a competitive bidding process to work together to limit competition by agreeing in advance who will submit a likely winning bid, fixing prices, or engaging in other illegal activity. This scheme defeats the competitive bidding process because the purchaser, who is depending on market competition to generate the lowest competitive bid, receives goods or services that are more than the market would normally bear. The crime occurs when the participants agree to limit full and open competition and competitive pricing.

➔ WHAT MAKES COVID-19-RELATED PROCUREMENT ACTIONS RIPE FOR ANTICOMPETITIVE FRAUD SCHEMES?

A competitive bidding environment depends on free and open competition. This ensures the best value for goods and services and depends upon prices being set honestly and fairly. Collusion is more likely to occur in rapidly changing and dynamic environments. In a disaster environment, such as the one created by the COVID-19 pandemic, competitive pricing can be impacted by the lack of competition, the scarcity of products, the urgent need to acquire products and services quickly, and the lack of substitute product availability. Although this does not mean that anticompetitive fraud schemes have occurred, the fluid environment increases the risk that they will.



➔ WHAT POTENTIAL ANTICOMPETITIVE BIDDING FRAUD SCHEMES MIGHT YOU ENCOUNTER?

BID SUPPRESSION

Bid suppression or bid withdrawal is when conspirators have an agreement among themselves to either not submit a bid or to withdraw bids.

COMPLEMENTARY BIDDING

Complementary bidding is a scheme in which bidders agree to submit token bids so another conspirator wins the contract.

COORDINATING BIDDING

Coordinating bidding is a scheme in which the bids from one or more companies are received together or show signs that the companies may be working together. The result is that the coconspirators will not bid or will submit only complementary bids when a solicitation for bids is made by a customer or in an area not assigned to them.

BID ROTATION

Bid rotation is a scheme in which conspirators submit bids and rotate who will be the lowest bidder. The rotation of bids can be based on various factors, such as the type of contract being awarded or the geographic area in which the contract is located, in order to guarantee which bidder is going to win.

➔ WHAT POTENTIAL “RED FLAGS” SHOULD YOU LOOK FOR WHEN REVIEWING BIDS

BIDDING RED FLAGS

- The same companies always bid, the same companies always win, and the same companies always lose.
- There are unusual bid patterns; for example,
 - > bids are identical, very close, or too far apart based on past submissions;
 - > bids are an exact percentage apart;
 - > bidders submit bids in later rounds in the same order as in the first round; and
 - > bidders submit a high price on one line item in one bid (to support a designated winner) and a low price on the same line item in another bid (to win a contract).
- Different bids appear to be signed by the same individual(s) submitting the bid and are represented as separate bids.



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- Losing bidders are hired as subcontractors or suppliers.
- Qualified contractors fail to bid and, instead, become subcontractors.
- Companies suddenly withdraw from the bidding process despite submitting competitive bids.
- A significant number of bidders who obtain bid packages do not submit bids.
- Losing bids do not comply with bid specifications, or only one bid is complete, and other bids are poorly prepared or defective.
- Bid prices for all companies suddenly increase without explanation.
- A bidder submits a significantly lower bid compared to other competitors to ensure the award of the contract, then makes excessive change orders to raise costs and reimbursements.
- Losing bidders are unknown in the industry or cannot be located through normal means (business or telephone directories or the internet).
- There is a rotation of winning bidders by job, type of work, or geographic area, indicating that bids have been coordinated.

PRICING RED FLAGS

- Persistently high or increasing bid prices compared to cost estimates, price lists, previous prices on similar jobs, or industry averages.
- Wide variation in line item bid prices between bidders without apparent justification.
- Bid prices dropping when a new or infrequent competitor enters.

DOCUMENTARY RED FLAGS

- There are physical similarities in bids or proposals submitted by different bidders, indicating that all of the bids might have been prepared by the same party; for example,
 - > identical stationery layout, type face, etc.;
 - > common addresses, personnel, phone and fax numbers, etc.; and
 - > same calculations, handwriting, spelling or math errors, or corrections in two or more bid packages.
- Multiple losing bidders submit defective, forged, or sequential bid securities or securities purchased at the same bank on the same day, etc.

HUD officials and participants are urged to be on the lookout for any of these fraud schemes, which can be reported to the HUD OIG hotline at <https://www.hudoig.gov/hotline>.

