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Success through experience, knowledge transfer and collaboration



SUPPLY CHAIN MANAGEMENT

Fraud risk indicators / “Red flags”

SUCCESS THROUGH EXPERIENCE, KNOWLEDGE TRANSFER AND
COLLABORATION

Guide to fraud risk indicators in the Local Government Supply Chain Management Environment

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Introduction

A fraud risk indicator or “red flag” is merely an indicator that something might be wrong and therefore not an indication that actual fraud/corruption is occurring.

A “red flag” requires you to pay closer attention, ask more questions and do further verification of the facts.

The contents of this booklet should also not be viewed as a complete set of “red flags” for the SCM environment. All I hope is that your curiosity has been sufficiently roused in order to be more sceptical and careful of what is going on around you.

Remember this: One swallow doesn’t make a summer, but what is that swallow doing here and are more swallows lurking somewhere in the detail. Well that was a bit cheesy, but three things which I have learned during my time as a forensic accountant: (1) Fraudsters come in all shapes, types and sizes so careful who you trust; (2) To catch them with their pants down, you must have an in-depth understanding of the systems and processes in which they operate; and (3) Never lose your sense of humour (it is a great ice breaker).

These “red flags” can be applied in any organisation regardless of the type of business. Fraud and corruption is the same wherever you find yourself. As long as there is a procurement function these “red flags” will be relevant. But...and this is a big BUT...no municipality is the same! You may respond with: “*But we all perform the same types of functions and services to the public?!*” I agree, but what makes you unique is your staff. The mix of personalities, cultures and attitudes make your organisation unique when compared to any other organisation. Consulting firms tend to offer generic solutions to your systems and procedures which they “cut-and-paste” from one client to another. They rarely consider the human element. What is missing, is working with people and not through them. That is enough philosophy for now, let us continue.

The “red flags” in this booklet have been divided according to the following phases of a procurement process:

- Identification of goods/services required;
- Development of specifications;

1 - INTRODUCTION

- Decision on procurement method, i.e. emergency, sole provider, request for quote (or 3 quote process), closed tender or public tender;
- Obtaining tenders or quotes;
- Evaluation and adjudication of submissions; and
- Contract management.

Please note that before you start applying any of these “red flags” you must have a detail understanding of the processes preceding a “red flag”. In other words you must have a clear understanding of each action performed by those who have handled the process/transaction before it got to you. Why? Well fraud is in the detail and you work with people (not robots). Fraud occurs because certain basic steps are neglected, such as the lack of verifying basic information and trusting individuals too much in respect of rudimentary actions, i.e. those steps that we often take for granted.

Here is a tip when investigating any potential fraudulent matter:

Never focus only on the culprit(s) who benefitted from the alleged fraud. An experienced investigator should also consider the actions of everyone else who was involved in the process. He / she should be asking questions such as: Who did not do their work properly? Who should have picked up this potential fraud before it occurred? What steps could have prevented this fraud? What practical recommendations can prevent this in future? Where in the process can the recommendations be most effective without increasing workload and workforce?

This type of approach requires the investigator to gain a detail understanding of the whole process (cradle to grave). He / she should perform a thorough walk-through of the process. This is the only way to hold people accountable for their actions and the impact their negligence had on the integrity of the process. Why? Because their negligence assisted the perpetrator and therefore they should be held accountable – how else are we going to learn and improve?

War story of the war stories

Here and there I will include some war stories, i.e. actual matters investigated by me or initiatives where I have been involved. They have been tailored or watered down to avoid prolixity (that is a *lekker* word for long-windedness and not a medical condition). These war stories are merely there to illustrate a point and sometimes to fill some empty space on a page. Also remember: The names have been changed to protect the innocent and to insult the stupid. Enjoy!

Identifying requirements

I always advise people to start at the beginning. When you identify a “red flag(s)” further down the process it is quite possible that things started wrong.

Here are some things to consider before continuing with the procurement process:

- Is there budget for this requirement?;
- If budgets/funds had to be made available for this purchase, why was it not planned for?;
- Are we purchasing the same items on a regular basis?;
- What happened to the same items purchased recently?;
- Are we purchasing the same items on a regular basis from the same supplier?;
- Why is there not an enabling contract in place for these regular purchases?;
- Is the person who identified the requirement the same person who will be signing as acknowledgment of the delivered goods/services?;
- Requesting regular small quantities, where larger quantities would have realised discounts;
- Requesting large quantities suddenly where normally smaller quantities were the norm;
- Does the requirement relate to the replacement of items which were relatively new? What happened to the “old” items? Did we receive income from the sale thereof?;
- Was the request preceded by aggressive marketing from a supplier? Do we really need these items?;
- Lack of estimated costs attached to request;
- Unnecessary pressure from requestor to commence with procurement;
- Does the required item/service form part of a potentially larger project, which should actually be procured as one large contract and not in bits and pieces? Remember what I said during the introduction: You, as the procurement specialist, must understand where the required items are going to fit in the business and whether it will be more economical/effective to wait for the larger project to commence;
- Is there evidence that larger projects/contracts are being split into smaller portions to avoid public tenders?;
- The requestor has already obtained quotes from potential suppliers (to save you time?! – yeah right!). Who are these suppliers? Are any of them unknown to you?;
- Are there suppliers with intimate knowledge of your planned spending and upcoming projects? Where did they get this information?.

2 - IDENTIFYING REQUIREMENTS

You do not want to be perceived as playing the role of a policeman, but as an SCM official you are a custodian of the integrity of the procurement process and the financial wellbeing of your employer. If something does not make sense you must raise your concerns. It is your job to ask the difficult questions.

War story – Tender observations reduce irregular expenditure

I have been involved at a public entity for some time and it was where I stumbled upon a brilliant initiative, namely “tender observations”. It is quite possible that you have something similar in place, but if not, it is worth a look.

Our approach entailed the inclusion of an independent non-executive member who must attend every meeting in respect of tenders. This person was required to attend the compulsory briefing sessions, closure of the tenders and all meetings where the tenders are being evaluated, adjudicated and debated. In fact, no tender related meeting could continue unless this member was present.

What was the role of this member? Well first of all he / she had to be:

- Knowledgeable on the current SCM rules and regulations of the organisation;
- Knowledgeable on current Treasury regulations relating to SCM;
- Understand where the goods/services, as per the tender, fits into the business and strategy of the organisation; and
- Above reproach.

This member was required to monitor the process in order to ensure consistent interpretation and application of those rules and regulations where a tender panel could use their own judgement or interpretation. The latter often resulted in inconsistent handling of similar situations which exposed the organisation to possible legal challenges from unsuccessful bidders when information leaked to the media (as it so often does). This member also provides alternative interpretations or suggestions in sticky situations where the tender panel is of the opinion that a particular entity should be excluded; a tender requires cancellation/restart or certain information required an independent set of eyes.

This initiative will result in a significant decrease in potential irregular expenditure. It will also ensure that tender panels are more consistent in their evaluation and adjudication of tenders, thus decreasing your risk of being challenged by unsuccessful bidders and protecting your reputation as a fair and objective organisation.

Where do you find such a person? Look for a person with internal audit and forensic experience (emphasis on the forensic experience). Or phone me!

Developing specifications

Perpetrators often give a lot away at this stage. One can easily identify collusion with a supplier at this stage.

- Who compiles the specifications? Are SCM involved in this process?;
- Are the specifications comprehensive and detailed enough or are there several grey areas which may be exploited by the supplier to add additional services/goods not detailed in the original specifications? Remember those instances where the supplier tells you “...*but you didn't tell us about this or that...*” or “...*this product cannot be utilised with your current set-up...*” blah blah blah?;
- Do the specifications stipulate that after sales services must be included in the quote? For example when you purchase technical equipment which will require servicing and maintenance in the future. If they do not offer an after sales service for something like a generator it is quite possible they act as a middle man and you could probably get the same item cheaper (in the long run) from a reputable supplier;
- Do you stipulate how pricing should be quoted and set out? Consider dictating price increase dates and guidelines, such as first increases 12 months after awarding contract at rate of inflation unless supplier can prove that due to importation costs a particular product increased;
- Do the specifications include terminology or requirements that are unique to a specific service provider's offering? Or even worse: Is it general knowledge that a certain supplier assisted with the compilation of the specifications? Maybe one should first consider a request for information or proposal before compiling the specifications for a quote or tender process;
- Do the specifications appear restrictive or specific in order to exclude certain suppliers and/or to favour another?;
- Be careful of utilising independent technical external consultants to assist with the preparation of the specifications, proposed work plan, etc. They leak information to other service providers easily and often re-appear as sub-contractors for the service providers;
- Consider preventing external consultants, who assisted during the specification phase, from taking part in subsequent tenders/quotes for the same project. They will have a conflict of interest already at this stage of the process seeing that they have intimate knowledge of your operation and can easily add unnecessary requirements or exclude crucial information which will impact on competitors' submissions;
- Bid specifications lack sufficient detail which may result in receiving bids which cannot be compared effectively;

3 - DEVELOPING SPECIFICATIONS

- Bid specifications deviate significantly from previous bids for the same type of items;
- Bid specifications lack detail regarding sites where items are required or where services should be rendered;
- Are the compulsory criteria (i.e. non-compliance to these will result in disqualification) and “recommended but not compulsory” criteria clearly indicated;
- Be careful when using words such as “must”, “may” and “could”. The latter two create *grey* areas which could be interpreted one way or the other. These often lead to inconsistent interpretations from tender to tender by panel members and even bidders;
- The functionality criteria and relevant points must be clearly stipulated, as well as the threshold to be obtained in order to advance to the next phase.

War story – Where did these spec’s come from?

My client wanted to procure an IT system, but due to the technical nature and specialist knowledge required to implement this system they appointed an external technical consultant (Mr IM THEMAN) to assist them. He was responsible for developing the specifications and a draft project implementation plan. This plan would have been utilised to measure the tendering entities’ proposed plans. From my discussions with other members of the tender panel, it became clear that Mr Theman was, according to himself, an expert and very knowledgeable on the relevant subject matter. This is the type of person who really gets to me: How do you know they are good...they tell you!

When the tender submissions were being reviewed we noted that the proposed implementation plan of one company (CAHOOTS (Pty) Limited) contained the same two spelling errors and a unique term which we identified in the proposed implementation plan of Mr Theman.

Clearly there was a link between these two. Were they in cahoots? Well, after further enquiries we learned that Cahoots recently installed a similar system at Mr Theman’s current employer. This is where they got very cosy. Even though my client’s tender for this system was supposed to be a closed tender, Cahoots was invited to tender based on the recommendation of Mr Theman without any declaration of any possible conflict between him and Cahoots.

A colleague of Mr Theman heard about our enquiries into the activities of Cahoots and Mr Theman. He contacted us and informed us about rumours of kickbacks between Cahoots and Mr Theman. This is when we uncovered that Mr Theman’s life partner was employed at a subsidiary of Cahoots....the plot thickened!

At the time of writing this document the matter was with the Hawks for further investigation and interrogation of the stupid, the innocent and the hilarious.

Select a procurement method

- When a person insists that a certain method is sufficient or required to procure the relevant goods/services, this could indicate that something is amiss;
- Does SCM have access to the motivation for emergency or closed tender procurement? Does the motivation make sense?;
- Is the relevant requesting department often guilty of emergency procurement requests? This could be an indication of poor management and not necessarily the presence of fraud or corruption. Therefore, if no clear indication of fraud and corruption exists, it is still best to sort out the poor management issue because poor management often creates opportunities for fraud and corruption;
- Emergency procurement or closed tender process is motivated for goods/services which are readily available;
- Emergency procurement or closed tender process motivated for goods/services procured through normal channels in the past;
- Unnecessary sole source justifications. Can we confirm/verify statements and motivations in favour of these sole source procurements?;
- Motivation for emergency sole source procurement includes potentially unwarranted restrictions which favours a specific supplier;
- Has anyone performed any research (such as on the internet) for alternative suppliers, when they motivate that only one/two/three potential suppliers for these goods/services exist?;
- The motivation for emergency procurement includes remarks such as SCM delayed the process or they will be too slow to ensure timeous procurement of the relevant goods/services. Could the negligence be on their side due to their lack of planning?;
- “Unforeseen” circumstances could have been foreseen, especially when the relevant procurement forms part of this year’s budget for the relevant department. Therefore, they should have planned better instead of getting better at emergency or sole source procurement;
- Have the right levels of authority approved the motivation for closed tender or emergency procurement? Do you know who represents the right levels of authority? Do they have knowledge of the request for this procurement process?;
- Consider performing a thorough background check on the entities considered for the emergency procurement or closed tender;

4 - DECISION ON PROCUREMENT METHOD

- Are any of the people involved in the request for closed tender or emergency procurement in the process of resigning and potentially joined one of the suppliers?; and
- Why are we going the tender route for something that can only be supplied by one supplier in the country, such as a supplier with sole distribution rights for a certain product in a particular region or country? The lesson here is to know enough about the source and nature of a specialist product otherwise you are creating opportunities for “*middle men*” – you know that when these guys knock on your door you are going to pay a lot more;
- Will reasonable time be provided to potential suppliers in order to respond to a request for tender or quote? Unreasonable timeframes may be an indication that a supplier out there has received inside information or early warning of a possible tender or quote process to be advertised and they will potentially be the only one to meet the tight deadline.

War story – Sole distribution through a network of middle men

A government entity required encryption software in order to encrypt the contents of its desktop and laptop hard disk drives. The most popular software at that time was a product from the USA with one official distributor in Southern Africa. What does that mean? Anyone in Southern Africa requiring this product, whether you want to install or resell it, must purchase it from the official distributor. You cannot buy it over the internet or anywhere else in Southern Africa without the distributor being involved.

Management requested the SCM manager (Mr EM Power) to commence with the process with the assistance of the IT manager (Mr MY Money). Suddenly, Mr EM Power managed to obtain 3 quotes from 3 “*independent*” entities for the same encryption software. The CFO asked Mr MY Money (the IT man) how this is possible and the latter explained that the USA company supports BEE and that these entities were their approved BEE distributors in South Africa. Note to reader: I am not joking – the CFO fell for that one!

A basic Google search revealed that the original distributor was still the only distributor for the software in Southern Africa as per their official website and the website of the USA company.

We knew that something must be wrong with the 3 quotes obtained by Mr EM Power. On closer inspection we noted similarities in the format and layout of the quotes, the same fax number on quote number 1 and 2 and other similar details on quote number 2 and 3.

In the end Mr EM Power admitted that he assisted the 3 entities in preparing the quotes for the encryption software and he introduced them to the official distributor. The latter would supply them with the necessary disks which will then be provided to the IT manager. Furthermore, Facebook also revealed that Mr MY Money and the directors of each entity who “*quoted*” in respect of the encryption software were close friends – well at least at the time of the investigation. Now they are probably not talking to each other.

The Hawks had a field day with these guys. It was interesting that Mr EM Power was adamant that he merely did this to empower the relevant entities, but he did not understand that the concept of zero value add when acting as a middle man was actually frowned upon.

The lesson here: Know what you want to procure, i.e. not just the name of the product. Do your research. Google takes a couple of seconds and don’t forget Facebook or LinkedIn.

Obtaining tenders and quotes

Once a request for tender or quote is made public, you are entering, what I would call, a sensitive period. I would define this period as follows: This period commences when the request for tender or quote is made public and continues till the closing time and date of the relevant tender or quote. Most important during this period is the nature of all communications between you/your staff and potential service providers. These communications must be transparent, objective and treated with great care. Any information exchanged during the sensitive period, which may impact on the integrity of the process and/or provide an entity with an unfair advantage when the new information is compared to the initial information supplied to the public and other suppliers, must be made available to all potential suppliers. This will ensure a transparent, fair and objective process.

- Was a reasonable time period provided to potential suppliers enabling them to compile a proper tender or quote submission? This can be determined by comparing the number of attendees at a briefing session (or number of entities requested to quote) to the number of submissions received;
- Consider, as a post mortem, to contact those who did not respond in order to establish why they did not respond. One can only learn from such interactions;
- Was reasonable steps taken to ensure that a sufficient number of potential suppliers were informed of the tender or quote? Remember that the 3 quote requirement is a minimum requirement and not an upper limit (i.e. do not exceed). The more quotes you receive, the more competitive the process;
- What control is exercised over the publication and distribution of requests for tenders and quotes? Are the RFQ documents getting to actual entities and/or to a sufficient number of them? The distribution is often centralised in the hands of one person without any supervision;

War story – Quoting on behalf cut his contract in half

Mr “Three Quote” Jackson, an employee in a SCM division was responsible for contacting potential suppliers and obtaining quotes from them in order to comply with the 3 quote requirement of his employer.

However, as we all know, trying to get 3 quotes can often be frustrating and time consuming. Mr

5 - OBTAINING TENDERS AND QUOTES

Jackson had an entrepreneurial spirit and got a bit creative. Seeing that suppliers often emailed their quotes in Word or Excel format, he had a library of “legit” letterheads and quote formats to choose from. As quick as “click-type-send” he had his three quotes and became one of his employer’s star performers due to the number RFQs he could take on and finalise. He even went as far as generating unique Gmail email addresses for some of his regulars in order to make the quote submission appear as close to legal as possible.

Needless to say he got confident...too confident...and slipped up. He utilised the letterhead and quote format of a listed IT company for a toilet paper quote. Remember when I said that he was entrepreneurial...well I didn’t say he was clever!

Fortunately the suppliers which he allowed to win each of the 3 quote process varied and included reputable entities. This combined with a quick review of recent bank statements which we obtained with his assistance did not indicate anything kickbacks from the relevant suppliers. It would appear that he was just plain lousy at his job and probably lazy as hell.

His 24 month contract ended after just 12 months and a 20 minute disciplinary for which he never pitched.

- Is it possible to segregate the duties of soliciting quotes and actually obtaining/receiving those quotes?;
- Do you have a system in place to ensure the rotation of those requested for each type or category of goods/services?;
- At compulsory briefing sessions one can identify potential problems before they escalate:
 - Are people signing the attendance register on behalf of more than one entity?
 - How do you know whether an individual actually works for the entity he is signing for?
 - The latter could be a “serial briefing session attendee”.
 - Did you note any close relationships /interactions between potential service providers at the session?
 - Did you note any similar interactions between your staff and the attendees?
 - Are attendees informed that any irregularities noted by them during and after the tender process must be reported to the municipal manager, chief financial officer and/or SCM manager? These reports will be treated anonymously;
 - One or more attendees not asking any questions, where other are firing away with the questions? The quiet ones might be really clever or they have inside information.
- If tender documents were completed by hand, do you notice any changes in the hand writing or does any of the handwriting look familiar (maybe one of your colleagues’ hand writing)?
- Is there any evidence that a supplier was assisted by one of your colleagues in completing the tender document?;
- Any rumours/evidence that one entity was referred to another entity seeing that the latter was unofficially guaranteed of getting the job?;
- A potential supplier providing unexpected alternatives to the original specifications, especially when he is pointing out actual issues in your business where the relevant goods/services are required and which will impact on the delivery of the original specifications. This might be an indication of inside knowledge;

5 - OBTAINING TENDERS AND QUOTES

- What is the control over the tender submission process? Could late bids slip in? Is more than one person independent of one another present at the closure of the bid?;
- Do you note any information in the tender submission which may indicate that information was generated and included in the pack after the closure date or compiled before the actual tender's advertisement?;
- Reasons for excluding a bid is not well documented/explained;
- An entity alleges that they submitted a tender/quote, but no evidence exists on your side;
- Bidders should be required to also supply their tender document in electronic format on CD/DVD;
- If you expect that the prices of some of the goods will be dependent on exchange rates due to it being imported, it is recommended that you specify the exchange rates to be utilised in bidders' calculations. This will result in price quotations which can be compared on a more equal basis;
- Collusion between bidders can be identified by maintaining a history of who tenders/quotes for which type of goods/services. Collusion is aimed at ensuring that everyone shares in the available government budget. Thus, you will note that only certain entities will tender/quote for certain types of services against each other and that they will take turns in who quotes high and who quotes less;
- Often entities in the same industry may agree to allocate specific regions to a specific entity, i.e. X will always win in Western Cape and Y will always win in Gauteng, although all of them submit bids in both provinces;
- Sometimes a sub-contractor (usually only becomes known during the contracting phase) also tendered in his own name, but at higher prices. This could indicate an active attempt at ensuring work is allocated to the lower entity;
- Collusion could be present when a tender/quote is re-advertised and some of the original bidders did not submit anything the second time around;
- Beware of situations where a bidder quotes significantly higher (for no apparent reason) than other bidders. Sometimes it is also quite interesting that prices suddenly drops when a new bidder enters the market;
- Joint ventures between entities who could have tendered on their own is suspicious but not disallowed.

Evaluation and adjudication

This phase of the tender process normally involves at least three sub-phases, i.e. the pre-screening of tender submissions in order to establish whether the correct information was submitted; functionality scoring in terms of the functionality criteria advertised and adjudication according to 90/10 or 80/20 (or on price and BEE). We are also now in a “closed” period, which requires limited and only authorised interactions with bidders.

Pre-screening

Your pre-screening phase should have a number of clear cut questions, with either a “yes” or “no” answer. Questions such as: “Did the entity submit a valid tax clearance certificate?”, “Did the entity submit proof of company registration, proof of shareholding, BEE certificate, etc, etc?”

This phase (well for me at least) is all about basic questions to determine whether this is an actual entity and a bid worth taking further to the functionality evaluation phase and whether the bidder actually read the tender document thoroughly before compiling its submission.

So here are some considerations:

- Who performs the pre-screening process? IT should be performed by at least 2 or more people who will prepare a report and co-sign it;
- Did the bidder submit the documents as requested in the tender document?;
- If a specific document is not included in the bid, you should refer to the electronic version supplied on a CD/DVD. Bidders should also clearly indicate whether they did include a CD/DVD just in case something goes missing;
- Did the bidder submit the bid in the format as requested by you? If not, I would throw them out. A lot of time often gets wasted when you have to pull a bid apart and rearrange things to enable you to compare bids more effectively;
- Did the bidder initial and sign as requested? It is important that they initial each page as acknowledgement of and agreement to the contents. If any of them cancel one of your paragraphs or sections, it should be an immediate dismissal. This should also be stipulated clearly, namely that any changes to the content will result in an immediate dismissal;

6 - EVALUATION AND ADJUDICATION

- We often scan through the submissions very quickly and some bidders try a quick one on you by cancelling a paragraph because they regard it as not being applicable to them. They should be dismissed immediately. Thus, look closely at their submissions;
- During the pre-screening phase one may identify potential issues which could be of use for the panel responsible for the next phase. These can be highlighted in your pre-screening report;
- Does the name of the entity and the goods or services required by you make sense. For instance, you require financial consulting services and the one bidder trade as “Jonas Consulting” but the official registered name of the entity is “Prestige Cleaning Services CC”;
- Did you identify anything which may indicate that the bid document was actually submitted late, such as dates on faxed copies in the tender submission;
- Did you verify any of the documents during the pre-screening phase? Any document, even a tax clearance certificate, can be recreated fraudulently with ease.

Functionality evaluation

- Have you reviewed the results of the pre-screening process? Does it make sense? Should we review the electronic version of a bid to confirm anything?;
- Are you noting any similarities between different bidders’ submissions? This might be an indication of bid rigging or collusion;
- Are you noting anything which may indicate that the bidder had inside information?;
- Do you note any significant differences between individual panel members’ scores? Should this be debated or discussed? This is important when the scores differ significantly in respect of a question where one would expect similar scores. I have experienced it in the past where panel members get very excited when I question their scores – they often take it personally. Usually I just remind them that this whole process is about being fair, transparent and objective and in the best interest of the organisation and the public. That usually works! However, if they insist that their score is their score, I often get suspicious about their intentions;
- Consider verifying independently some of the information required for the functionality scoring process, such as certification to supply or render certain services or goods on behalf of an international company;
- Are the persons or entities provided as references contactable? Remember that bidders will probably only provide references with which they have a good relationship. Maybe consider asking them to provide references for the entities making up a significant portion of their turnover as per their recent financial statements;
- No changes to the functionality criteria (as advertised) should be considered. Sometimes the panel realise during this phase that the functionality criteria might be too stringent and that it should be toned down. However, is this fair to those potential bidders who did not submit anything? They might have submitted a bid if the criteria was less stringent;
- Don’t ignore past experiences with a bidder. If they rendered poor service in the past, do you want to go through that again? As long as the past experience is well documented and was brought to the bidder’s attention, i.e. there must be a proper paper trail of past disputes and poor service;
- What type of warranty does the bidder offer on his products? Are these warranties provided by the actual bidder or do they provide you with actual warranty certificates from the original equipment manufacturer (OEM)? Beware of grey products or even illegal imports;

Adjudication of price and BEE

- By the time the bids get to this phase one should assess whether the process has remained competitive, i.e. did enough bidders reach this phase for price evaluation and final adjudication? One could continue even if only one bidder made it this far, but one of the reasons we went through this process was to ensure a competitive process was followed;
- The previous phase should not have had any access to the prices quoted by bidders. However, during this phase panel members should be on the lookout for any similarities in the prices quoted. This could indicate potential collusion between the relevant bidders;
- When calculating the price score per bidder, are we comparing apples with apples? Have each bidder provided their total price in a format which enables you to compare their prices effectively?
- When looking at BEE credentials it is important to note the date on which the relevant BEE individual(s) were appointed. If they were appointed shortly before the closing date of the bid, it is quite possible that you are faced with BEE fronting;
- If any bidders withdraw you must try to establish the reasons for this, especially when the withdrawing bidder was lowest on price and potentially one of the clear favourites to win the bid. Are they withdrawing to sub-contract to another bidder? How does this affect the main bidder's BEE credentials? How does this withdrawal affect the competitiveness of the process? Is the main bidder to whom they will sub-contract significantly higher on price? Then you know something is wrong!

Contract management

- No significant changes to specifications and prices quoted should be considered after the award to a specific bidder. However, if these changes are in the best interest of the organisation and public that should suffice, but if these changes are unfair to those who did not bid, we should tread carefully;
- Careful monitoring of all payments made to contractors during the contract period should ensure that duplicate payments are not made;
- The contract must be clear on what you require before any payments will be made, such as progress reports, sign-off by authorised levels in your organisation, etc;
- Material purchased by the contractor for your account (i.e. you are paying for it at the end of the day) should be monitored and controlled by you;
- During the contract period you should ensure that those staff members who featured in the bidder's submission are actually onsite and actively part of the service delivery;
- Are the contract terms clear and easily enforceable? Are penalties clearly stipulated? Who will be responsible for enforcing these?;
- During the service delivery you must be on the lookout for any other unsuccessful bidders popping up as sub-contractors. If sub-contractors are added to a project and not disclosed during the bid evaluation, one needs to keep track of how these new sub-contractors affect the original BEE score of the winning bidder;
- Ensure proper controls to identify product substitutions with cheaper products;
- Monitor ad-hoc costs! Often transport/delivery costs are not included in the original price comparison when we conduct the final price evaluation. These costs can quickly escalate to a level where the preferred bidder suddenly became the least competitive bidder;
- Be suspicious when a contractor cannot immediately supply time and attendance records on construction projects. Time/clock cards which appear to be written in the same handwriting?;
- When faced with a massive construction project you can visit the site unannounced and ask for clock cards and see if you can find all the employees on site. Don't be surprised when there are a few phantoms. Before approving progress payments on construction projects, consider making some enquiries in order to confirm whether the relevant staff were presents on the days claimed and whether items were actually purchased on your behalf as claimed in the invoice;
- Are you getting the goods/services promised? Are products SABS approved? Consider asking for proof of original purchase if you become suspicious.

General

VAT number

A VAT number must start with a “4” and it must contain 10 digits. If you are registered for SARS E-Filing as an individual, you can access the VAT vendor facility to check the validity of a VAT number.

Company registration number

A company or close corporation registration number should be in the following format:

yyyy / 123456 / xx

The “yyyy” reflects the year in which the entity was registered. The “123456” is a sequence number generated by the registrar of companies or close corporations. The “xx” indicates the type of entity, i.e. “23” indicates a close corporation and “07” indicates a private company (or (Pty) Limited). Some entities (especially the old school ones) often shorten the “yyyy” to indicate just the last 2 digits of the year of registration. This I would expect from entities registered prior to the year 2000. Furthermore, some entities also utilise the 5 digit format for the “123456” part of the registration number, but this is a really old school. When you come across these shortened versions I recommend that you double check those on CIPRO.

The identity number explained

Understanding the composition of a South African identity number can be very useful. Below I explain an example in further detail:

- 1) An identity number consists of 13 digits (always).
- 2) The first six digits is your date of birth.
- 3) The seventh digit represents your sex, thus if you are in doubt it works as follows:
 - 3.1) If the seventh digit is 5 or more, you are male
 - 3.2) If the seventh digit is 0 to 4, you are female
 - 3.3) If it is anything else, then I don’t know – ask your parents.

| A legit SA identity number (i.e. that of the writer) | Date of birth | | | | | | Sex | You were the 327 th birth registered for that date of birth | | | These are the result of a fancy calculation performed by computers at Home Affairs | | |
|--|---------------|---|---|---|---|---------------|-----|--|---|---------------|--|---------------|----|
| | 7 | 1 | 1 | 0 | 0 | 8 | | 5 | 3 | 2 | 7 | 0 | 8 |
| Identify every second digit | | 1 | | 0 | | 8 | | 3 | | 7 | | 8 | |
| Multiply these digits by 2 | | 2 | | 0 | | 16 | | 6 | | 14 | | 16 | |
| If the result of the previous step has more than 2 digits, you must the sum of those 2 digits and then the sum of the results of all the second digits | | | | | | | | | | | | | |
| | | 2 | + | 0 | + | 1+6 = 7 | + | 6 | + | 1+4 = 5 | + | 1+6 = 7 | |
| | | | | | | | | | | | | =27 | |
| Get the sum of every other digits remaining of the original identity number except the last digit (the latter is a control total). | 7 | + | 1 | + | 0 | + | 5 | + | 2 | + | 0 | =15 | |
| Sum of the these 2 results | | | | | | | | | | | | 27 + 15 = | 42 |
| What do you require to get to the next multiple of 10 (in this case 50) – this answer should agree to the last digit of the identity number. | | | | | | | | | | | | | 8 |

Letterhead format

The letterhead should indicate at least the following:

- Official registered name of entity;
- Trading name, i.e. “trading as”;
- Company registration number;
- Postal and physical addresses;
- Contact details; and
- List of directors (usually at the bottom).

Telephone and fax numbers

Landline, cellphone and fax numbers are all 10 digits in length.

Other tools which might be useful

The internet, especially Google.

Google StreetView

Facebook

LinkedIn

Twitter

SA Postal Codes or phone the Post Office

Issues pertaining to staff behaviour

Certain behaviours of your employees may necessitate closer scrutiny of their environment and their activities. The behaviours listed below are purely based on my own experience and observations over the past years:

- Habitual circumvention of prescribed procedures or expected norms;
- Initiating transactions without proper approval;
- Regularly having excessive personal cash on-hand;
- Poor handling of cash management functions or the handling of confidential information;
- Sudden change in life style or unusual extravagant spending behaviour;
- Regular complaints about debt and divorce commitments vanish;
- Not taking any leave or even, irregular leave taking;
- Regular unexpected travel outside the region;
- Significant amounts of physical and electronic email being received and sent;
- Regular use of other employees' computer terminals;
- Behaviour to obstruct internal/external audit processes and to destroy/interfere in audit trails;
- Single parents with children with/without learning disabilities.

One trend which I have noticed, but have never seen in any survey, is the following:

I always get extremely nervous/suspicious of people who regularly send out religious messages or who conducts business with a Bible on their desk. Also people whose offices/cubicles are covered with messages of encouragement, sayings, inspirational quotes, jokes, Bible verses and so on and so on. Based on investigations conducted by me over the years, this type of behaviour is usually a façade to hide underlying issues – issues at home or at the office!