Case study name	Cross border investigation on innovation project
Description	A beneficiary from country X received EU co-financing to set up an innovative production line. The production line was delivered to the beneficiary company by its mother company, based in country Y (another EU member state), which was selected through a tender procedure. The main components of the innovative production line, produced by different European companies, were provided by a subcontractor located in country Z (outside the EU), belonging to the same group as the mother company of country Y.
ESI Fund(s) concerned	European Regional Development Fund (ERDF)
Irregularity type	The following irregularities were detected: 1. Manipulation of tender 2. Conflict of interests 3. Premature start of the project 4. Inconsistencies related to the actual costs of the project
Reporting mechanism	OLAF received the information via its own channels of communication
IMS reporting	Yes
Red flag(s)	The fraud indicators and signals that triggered the suspicion were: a) The transactions between linked companies (mother and daughter company) were a cause of concern. b) Complex supply chain for the project involving actors in several different EU and non-EU member states .
Description of fraud pattern	The innovative production line was delivered to the beneficiary company by its mother company from another EU member state, which was selected through a tender procedure. The supply chain of the major components of the production line was complex. The main components of the line, produced by different European companies, were provided by a subcontractor located outside the EU, belonging to the same group as the mother company. The tender procedure, by which the beneficiary granted the contract to its parent company, had been manipulated. The scope of the competitive procedure was unlawfully expanded and the parent company was granted the contract without a real tender procedure. The purchases of some components of the production line had already started before the official launch of the project and before the tender procedure for the selection of the supplier of the production line. The price of some components increased by about

	70% throughout the supply chain. OLAF also uncovered close personal and operational links between the companies.
How the fraud was detected	OLAF discovered the irregularities including fraudulent activities which occurred at different stages: before the official launch of the project and during the project implementation. OLAF carried out investigation activities in 4 different EU member states. Thanks to these investigations, it was uncovered that the tender procedure by which the beneficiary granted the contract to its mother company had been manipulated. During the cross-border investigation, OLAF carried out its activities independently and cooperated with different national authorities, which provided their assistance, information and documentation. OLAF concluded its investigation with financial recommendations to the European Commission Directorate-General for Regional and Urban Policy (DG REGIO) for the recovery of the whole € 8 million of EU co-financing and a judicial recommendation to the national prosecution services of country X where the production line was based to initiate judicial proceedings in relation to the fraudulent activities. Proceedings are still ongoing.
Difficulties encountered	In this fraud case, OLAF encountered difficulties in obtaining documentation.
Weakness identified	OLAF considered the national controls to be insufficient to prevent the mother company from bidding and winning the contract. In addition to this there was no control regarding the increasing price of components used in the project, nor was there any mechanism to prevent the purchasing of some components of the production line before the tender procedure for the selection of the supplier had taken place. Preventive measures were subsequently put in place to mitigate the fraud risk. In particular, the national legislation establishing the national agency of economic development of country X in which the production line was due to be built was amended to prohibit the purchase of goods and services from a linked company. The prohibition concerns capital and personal links between the beneficiary and its contractor such as the possession of shares or at least 5% of stocks and performing the function of a member of the supervisory or management body.