

Practice Name:
Red Flags

Practice category:
• Red flags



Contact:

Country:
Hungary

- K-Monitor, PetaByte and Transparency International Hungary
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Fraud risk(s) countered

- Avoidance or manipulation of public procurement procedures
- Collusion
- Others

Context and objective(s)

Several studies and analyses have been published in recent years on the links between public procurement and corruption.

Yet, journalists and NGOs in Hungary willing to monitor public procurement processes had to do so manually, which required a lot of time to check the different public procurement databases.

Within the framework of the project “Prevention and detection of corrupt procurements through analysis, red flags and follow up”, the European Commission provided a grant to Transparency International Hungary (TI), K-Monitor and PetaByte to create a warning system, the Red Flags tool, which accelerates the fight against corruption and identifies fraud risks in the early stages of public procurement procedures.

The Red Flags tool was created in 2015 and was partly inspired by the functionalities of the ARACHNE tool, which is not open to the public. The Red Flags tool is public and tailored to the Hungarian public procurement process. It allows the monitoring of procurement processes and their implementation by journalists or any interested individual. Thus, it aims to enhance the transparency of public procurements in Hungary and to support the fight against corrupt procurements.

The tool checks procurement documents and flags risky circumstances with an emphasis on prevention and early warnings. Although risky does not mean corrupt and the tool does not measure corruption, flagged procurement documents can be checked and cases are made public if a severe risk has been identified.

Description of the practice

The Red Flags tool is a fully web-based and open source tool. Daily, it automatically checks procurement documents from the Tenders Electronic Daily (TED) and flags risky procurements applying special algorithms. It was promoted via the network of the project team (e.g. TI Hungary) and is primarily used by journalists and civil society organisations.

TED is the EU online portal which publishes public procurement notices and contract award notices. It is an open data platform. Compared to the Hungarian public procurement portal which was changed several times over the last several years, TED is much more stable. It was chosen for this reason as the basis for the Red Flags tool to avoid regular and costly changes of the tool. This limits, however, the analysis of high-level contracts above the EU thresholds.

Based on earlier and current research and discussions with focus groups, including lawyers, practitioners and prosecutors, the project team developed a set of indicators. These were based on the experience of the focus group and the types of corruption they encountered.

These indicators were translated into algorithms by an IT provider and tested.

The tool was developed over a period of two years out of which the IT development and testing took approximately one year. The budget allocated to tool development amounted to approximately 130 000 Euros out of which the IT development represented half.

Finally, 40 indicators were kept for the Red Flags tool out of which 31 indicators focus on contract notices and 9 indicators focus on contract award notices. Due to the preventive approach of the system, the contract performance is not currently monitored by the tool.

The indicators distinguish between red flags and pink flags. Red flags signal that a risk or the potential infringement on a legal requirement can be identified based on concrete characteristics of the specific public procurement procedure, included or omitted in the notice.

Pink flags signal a potential risk based on general information or risks identified earlier in the public procurement market in relation to the given notice. Pink flags are thus not the result of an assessment of the given procedure itself, but add detail to the picture, such as information on whether the contracting authority had been previously convicted by final judgement for public procurement offences, or what reputation it has in the market. The issue of potential cartel activities and information and company data linked to the winning economic actor(s) are also evaluated for pink flags.

Examples of indicators for contract notices are:

- Framework agreements with a tenderer (red flag):
Although legally permissible, a large framework agreement excludes competition for a longer period.
- Estimated total value of framework agreement (high) (red flag):
The potential risk is linked to the magnitude of the award and the red flag is issued for awards above 1.5 billion HUF (about 4.2 million €) for works and above 1 billion HUF (about 2.8 million €) for goods and services.
- Object of public procurement (cartel risk) (pink flag):
This potential risk cannot be concluded from the data of the specific procedure, but rather from the activities of the given market actors in the past. After a review of the final decisions of Hungary's Competition Authority, specific objects of notices such as road construction, railway track construction or IT system development were categorised as potential cartel risks and thus pink flags.

Examples of indicators for contract award notices are:

- Procedures without prior publication (red flag):
The Public Procurement Act (in accordance with EU regulations) only makes the use of this type of procedure possible if certain conditions exist. Its transparency is mostly ensured in retrospect on the basis of the data in the contract award notice which in itself involves risks.
- Number of tenders received (low) (red flag):
This indicator signals less than three tenders received in a procedure which means competition is at a low level in the procedure, or completely missing.
- Winning economic actor(s) – related information (pink flag):
This flag shows that there is a potential risk based on the earlier activities and corporate data of the tenderer(s), e.g. tenderer(s) were barred (by the Public Procurement Authority); tenderers were sentenced for involvement in a cartel (by the Hungarian Competition Authority); “companies with close ties to the party”; “regularly winning companies”; newly established companies; etc.)

The algorithm puts flags on the notices that have been identified as risky. The tool lists all notices and the user can check the red and pink flags by clicking on the corresponding flag next to a notice. Users can also subscribe to specific flags and get notifications, or they can filter the information to search for specific contracting authorities, value ranges or winners.

The tool is regularly monitored and maintained by a team of 5 people. On average, 20 people check the tool per day with 700-800 registered users.

If a risk of corruption is deemed severe, the team publishes information on social media or in newspapers to raise awareness about the case. In some cases, they also contact the contracting authority with requests for supplementary information. The tool and its results are however not officially used by government agencies or communicated to prosecutors or the police.

An IT company is hired on an ad hoc basis when changes are needed. Since the establishment of the tool in 2015, no major changes were undertaken and the project team focussed on the maintenance of the tool, including the adaptation linked to legal changes (e.g. EU thresholds for EU funds, EU directives). The yearly maintenance costs approx. 1000 Euros.

Unique features

- Web-based and open source
- Daily update of the information from TED
- Assessment of notices to produce red flags and of complimentary information on the parties involved to produce pink flags
- Individual set-up through the use of filters and subscriptions
- Adaptable to other countries through the use of EU notices.

Outcomes and results

Several cases of fraud were detected thanks to this tool and reported in the media.

The cases did not lead to any investigations and the government did not take any steps to change the public procurement procedures. Nevertheless, the tool is an important instrument to raise awareness, and possibly to prevent corrupt practices.

Key success factors

- Use of notices from TED makes the tool stable
- Algorithms based on actual experience of corruption in the country
- Regular monitoring of the red and pink flags by K-Monitor
- Easily adaptable to add new indicators

Challenges encountered & lessons learned

- A Lack of support from the Government for the development of the tool
- Risks are made public but follow-up by the prosecutors or the police is not ensured
- Use of TED limits the analysed notices in terms of threshold
- Limited or no access to other databases, e.g. company register, tax authority or publicly exposed persons

Potential for the transferability

Any country can implement and benefit from a similar tool. The Red Flags tool itself is flexible and easily adaptable to the environment of other countries.

The tool is primarily based on Hungarian indicators of corruption from the input of the focus groups. A country wanting to replicate the tool would need to define their own indicators of corruption.

Some countries could even include and analyse more information if they have access to other external databases.