

Case study name	Collusion to increase purchasing prices of equipment
Description	A legal person (the beneficiary) applied to the public investment and development agency to purchase necessary equipment for the production of plastic piping for electrical wiring. The project was submitted in 2009 to the operational programme “Entrepreneurship and Innovation” in the period 2007-2013.
ESI Fund(s) concerned	European Regional Development Fund (ERDF)
Irregularity type	<ul style="list-style-type: none"> • Infringement of public procurement procedure • Fraudulent collusion between the beneficiary and the supplier to increase the price of equipment • Submission of fraudulent documents to secure funding
Reporting mechanism	The public agency’s leading expert, in cooperation with the agency’s legal department, suspected a fraudulent collusion between the beneficiary and the supplier, and reported it to the State Police to start a criminal investigation.
IMS reporting	Yes
Red flag(s)	<p>Irregularities were suspected following a public procurement procedure in which the price of the equipment drastically increased. An evaluation of the submitted documentation led the public agency to suspect that the documents submitted, were fraudulent.</p> <p>Following an initial public procurement procedure, the beneficiary claimed that there was a mistake in the technical specification of the equipment and that corrections were required. Owing to this, a second procurement procedure was held. The public agency had suspected that the beneficiary had mistakenly set the price in euro instead of the national currency in the initial procurement and decided to arrange a new procedure to fix the mistake.</p> <p>The contract was awarded to the same supplier in both procurements; however, the price of the equipment increased during the second procedure. The equipment was €442,000 more expensive during the second procurement than it was during the first procedure. Around 35 % of the eligible expenditure (€497, 997.49) was due to be awarded to the beneficiary after second public procurement procedure.</p>
Description of fraud pattern	The public agency discovered there was no established connection between the supplier who had won the tender (the subcontractor) and the actual manufacture of the equipment. It transpired that the beneficiary had conspired with the supplier to misappropriate funds by submitting fraudulent documents to secure funding in December 2010 and inflated the price of the equipment required

	<p>during the second procurement procedure. In addition, the winning supplier was found to have been removed from the VAT register in another neighbouring member state. The fraud was committed from June to December 2010.</p>
How the fraud was detected	<p>This case involved the beneficiary of the funds, the equipment supplier and the subcontractor. The public agency began to suspect this was a case of fraud following the receipt of a payment request from the beneficiary in December 2010. The agency investigated the suspicious circumstances and requested additional information from the beneficiary, the equipment manufacturer and the state revenue service. The beneficiary's funding application was examined, including the documentation of the equipment purchase agreement. The documentation supplied was found to be fraudulent. Thus, in December 2011, the public agency rejected the funding request and sent a request to the State Police to start a criminal investigation.</p> <p>In July 2015, the National Court found the three defendants guilty and imposed financial penalties. Two of the three had to pay financial penalties of €21,600 each and the other defendant had to pay €10,800 in accordance with the National Criminal Law for an attempted crime, and for fraud committed on a large scale or in an organised group. The beneficiary had to pay a penalty of €18,000 under the National Criminal Law. The fraud did not result in the loss of funds. The €497,997.49 due to be provided as funding was not paid out as the fraudulent behaviour was uncovered prior to the payment being made.</p>
Difficulties encountered	<p>In this case the main difficulty was that gathering the evidence for the case was time consuming. On the other hand, during trial defendants pleaded guilty so there was no appeal and trial was not so long as usual.</p>
Weakness identified	<p>The procedures that were in place were appropriate to spot the fraudster in time but the procedures at the agency became more detailed following this case. The internal control system was improved and strengthened.</p>