

Guide to Combating Corruption & Fraud in International Development Projects

Potential Scheme: Change Order Abuse

Contract amendments, also known as “variation orders” or “change orders,” can be manipulated to facilitate corruption or fraud schemes. For example, a contractor, acting in collusion with project officials, can submit a very low bid to win a contract, knowing that promptly thereafter the officials will approve a change order to increase the price, allowing the contractor to recover its profit and fund bribes.

Change orders often receive less scrutiny than the initial bidding and contract award process, making them a popular way to fraudulently access funds.

Change orders often are limited by contract to include only actual and direct costs, but contractors may inflate labor rates or material costs to improperly generate profits.

RED FLAGS of change order abuse

- Poorly justified or documented change order requests and approvals
- A pattern of low bid contract awards followed by change orders that increase the price of the contract
- A pattern of sole source contract awards just below the competitive bidding threshold, followed by change orders that increases the price above the threshold
- One or a few contractors receive a disproportionately high number of change orders compared to other contractors or to prior similar contracts
- Known culture of corruption among project officials and inspectors
- Weak controls and lax procedures regarding the review and approval of change orders, e.g., the same official certifies the need for the change order and approves it.

CASE EXAMPLES of change order abuse

See actual case example of change order abuse

(<https://guide.iacrc.org/proof/case-examples/case-example-of-change-order-abuse/>) from investigated cases.

BASIC STEPS TO DETECT AND PROVE change order abuse

1. Interview all complainants to obtain further detail.

- General interview questions

(<https://guide.iacrc.org/detection/interview-questions/questions-to-ask-a-complainant/>)

- Change order abuse questions

(<https://guide.iacrc.org/detection/interview-questions/interview-questions-change-order-abuse/>)

2. Obtain the following documents and examine them for the red flags listed above:

- Requests for bids
- Bid evaluation reports
- Sole source award documentation
- Contracts
- Change order requests, approvals, payments and related memoranda

3. Prepare a spreadsheet that identifies:

- The number and monetary value of change orders awarded to each contractor
- Change orders that promptly followed contract awards
- The official(s) who requested and approved the change orders

Examine the spreadsheet for the red flags listed above.

4. Closely examine the reasonableness of low bid or sole source awards followed by change orders, particularly a pattern of such awards involving the same contractor.

CATEGORY: MOST COMMON SCHEMES

([HTTPS://GUIDE.IACRC.ORG/CATEGORY/PROOF/MOST-COMMON-SCHEMES/](https://guide.iacrc.org/category/proof/most-common-schemes/))

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