



Key mitigating controls

for prevention and
detection of fraud

CTP Case study



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**1306500 Key mitigating controls for prevention
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1. Overview

The International Federation of Red Cross and Red Crescent Societies (IFRC) acknowledges that cash transfer programming (CTP) is an effective response option to support disaster-affected populations in a way that is empowering and dignifying. The steady growth in CTP usage in IFRC operations is evident both in the number of appeals that include a CTP component and in usage that spans from relief to recovery and across sectors. When appropriate, CTP is a powerful cross-cutting tool that can help achieve multiple objectives, but more importantly, objectives that are most important to the disaster-affected population.

Despite this growing acceptance of CTP as a response option, concerns about misuse and fraud remain an obstacle for many National Societies in adopting cash-based responses. This concern revolves around the risk of diversion of funds due to its greater appeal and discretion compared to its in-kind equivalent. As a humanitarian organization, it is our responsibility to remain accountable to donors and our mandate to serve the most vulnerable people. However, as routine consideration of appropriate CTP becomes increasingly expected by donors and CTP is identified as a preferred form of support by the affected population, risks of fraud does not necessarily mean that CTP should not be implemented, rather they need to be identified and appropriately managed.

However, the level of controls needs to also be fit for purpose in relation to the risks identified. In an environment with finite resources and expectations for cost-efficiency, striking the right balance can often be challenging. Due diligence for a rigorous risk management system is mandatory, but also needs to be balanced with its fit for purpose such that the resource invested justifies the degree of risk mitigation activities performed. There is in part a need for managing realistic expectations as much as there is a need for risk management to be more rigorous.

It must be made clear that both the IFRC and its membership have zero tolerance for fraud. There is a clear distinction between loss from fraud versus loss from shrinkage which includes administrative errors and unredeemed grants post-distribution. However, CTP is often held by organizations at a heightened standard compared to its in-kind equivalent within the humanitarian sector. This is not an appeal to lower the standards for CTP nor is it an invitation for negligence, but like shrinkage with in-kind goods, a level of acceptable loss needs to be established for CTP expectations to be more practical and manageable. Like in-kind goods, risks can be mitigated by the design, implementation and monitoring of the programme. Therefore, we must strengthen our ability to manage risk in order to accommodate CTP while doing our due diligence in minimizing the risk for both cash-based responses and in-kind goods.

As CTP is becoming more institutionalized, more expected and more commonly used, standard processes should be established such that key controls are established in preventing, deterring and detecting fraud. Best practices and lessons learned from the Movement is the best way for us to continue improving humanitarian standards and best serve those in need.

This anonymized case study walks through the process of how the IFRC and National Society dealt with fraud in a large, longer-term CTP project that resulted in the continuation of the programme in hopes that the lessons learned can help further mitigate similar risks in other programmes.

2. Programme overview

Objective	Unconditional cash transfers for basic needs and winterization support
Duration	18 months (12 months of payments)
Cost	8.43 million Swiss francs (CHF)
Number of households	4,596 households
Household selection criteria	<ul style="list-style-type: none"> • Below the poverty line • Vulnerability based on living conditions, dependency ratio and income/expenditure • Female headed households • Households with sick/injured/disabled member • Households with four or more children • Households with children under five years of age
Main activities for set-up of CTP	<ul style="list-style-type: none"> • Stakeholder analysis • Problem and objective tree • Vulnerability criteria/selection • Selection of location and targeted beneficiaries • Determination of cash modality • Determination of delivery mechanism • Plan of action • Distribution • Post-distribution monitoring (PDM) and focus group discussions (FGD)
Key mitigating activities	<ul style="list-style-type: none"> • CTP standard operating procedures (SOP) • Beneficiary communication and feedback (phone call, home visits, announcements, post-distribution monitoring (PDM) visits) • Complaint mechanism (telephone hotline)
Actions taken in response to the fraud identified	<ul style="list-style-type: none"> • Internal investigations • Dismissal of those involved • Reverification of the beneficiary list • Increased segregation of duties on key project roles and functions • Transfer of responsibility on key duties • External audit • Additional mitigation/remedial actions

3. Programme description

Context and programme choice

An escalation of violence and a continuously deteriorating economic situation in the neighbouring country had forced a large-scale population movement. Several actors from within the Red Cross and Red Crescent Movement responded to the large-scale population movement to address the most vulnerable people's needs and protect their living conditions in a way that preserves their dignity.

Findings from the Household Economic Security assessment suggested that families were incurring multiple expenditures with limited opportunities to earn income and that rent fees were identified as one of the biggest expenditure.

The affected population survived entirely on daily work, sale of food vouchers, taking loans and charitable donations. It was identified that renting a place to live was one of the biggest expenditure and without further support for needs not easily covered by in-kind goods (e.g. rent), many were forced to take on negative coping mechanisms such as relying on illegal work, child labour, selling their personal assets and incurring debt.

For this reason, unconditional cash was identified as an appropriate form of assistance to alleviate and help families meet their needs based on their individual priorities and to prevent erosion of coping capacity and assets.

Programme design

It was assessed that the context had a good level infrastructure to be able to deliver CTP with sufficient ATM machines available by the partner bank. This delivery mechanism also allowed for monthly instalments without needing to conduct monthly physical distributions.

Programme design	
Total transfer amount per household	The amount received is graded according to family size (in CHF ¹): <ul style="list-style-type: none"> • CHF 65/month – families of 1-2 members • CHF 130/month – families of 3-5 members • CHF 156/month – families with 6 or more members
Number of payments	One instalment per month for up to 12 months
Modality	Unconditional cash grant
Delivery mechanisms	Cash transfer through third party (prepaid debit cards distributed by the National Society and redeemed at the partner bank)
Partners/service providers	PARTNER BANK
Service provision charges	<ul style="list-style-type: none"> • CHF 2.60 as loading fee for each upload of cash grant and management fees • CHF 1.96 for each card issuance • No charges for card replacement

¹ www.oanda.com/

Household selection

Based on a set of criteria, the National Society's branch volunteers identified the households. Household visits were set up to complete the registration forms to verify the conditions and criteria of the household for the programme. The criteria agreed with the partners were as follows:

- Below the poverty line
- Vulnerability based on living conditions and income/expenditure
- Female headed household
- Family with sick/injured/disabled member
- Families with four or more children
- Families with children under five years of age

The list was then sent from the branch to the National Society's headquarter office where a project staff would then do a 10% verification of those households to ensure the criteria were met.

Programme implementation

The IFRC provided the list of selected households with several key data points (name, ID number, address/location) to open an electronic account which was linked to a prepaid debit card. The card's function was limited to cash withdrawal from ATM points only. A database on household information with accounts of payment and retrieval dates of the cash grant was kept and managed by both the IFRC and the National Society.

The cards were given from the bank to the IFRC project manager. These cards were then distributed to households by the National Society at branch level in the presence of an IFRC delegate. Households were then free to withdraw cash at ATM points at their own convenient time.

Reporting mechanisms were also put in place such as monthly reports, operation updates and weekly bank reports. However, the intention of these reporting mechanisms were more for operational needs and not for detecting irregularities.

A feedback mechanism in the form of a telephone hotline managed by the National Society was in place to log feedback and complaints. The complaint mechanism was utilized ranging from 100-350 calls monthly around concerns about the continuation of the programme, checking of balance and troubleshooting technical errors.

Home visits were conducted before and after the distribution for assessment and post-distribution monitoring. The home visit covered monitoring of cash usage, response appropriateness, satisfaction of ATM cards, distribution process and complaint mechanism. Focus group discussions were also conducted to understand better the relations with the host community, the household environment and project sustainability.

Programme outcome

This programme supported 4,596 households with unconditional cash grants to help families meet their basic needs and get through the winter. During the 12 months, each household, depending on its size, received total of:

- CHF 1,145 for families of 1-2 members
- CHF 1,925 for families of 3-5 members
- CHF 2,237 for families with 6 or more members

The programme helped reduce the gap between household expenditure and income, as well as decreased the risk of negative coping mechanisms. As anticipated from the assessment, a large proportion (47 per cent) of the cash grant was used for rent with the remaining used for other basic needs.

However, through the feedback mechanisms and internal investigations, it was discovered that 54 out of the 4,596 households did not receive the aid they were intended to receive which equated to CHF 43,930 misused by the time the perpetration was detected. This corresponds to 1.1 per cent of the households and 0.5 per cent of the funds respectively. Corrective actions and measures to strengthen the programme were agreed upon and taken in compliance with IFRC's fraud and corruption prevention and control policy that is further detailed in section four of this case study.

Diagram 1: Type of monthly expenditure proportion

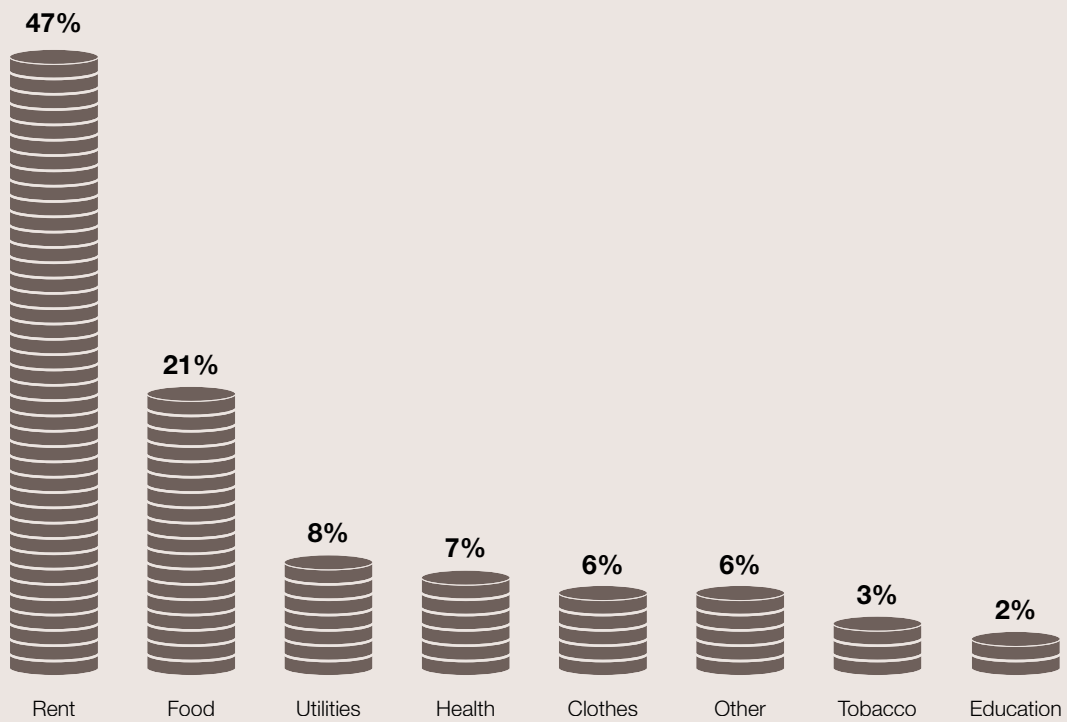
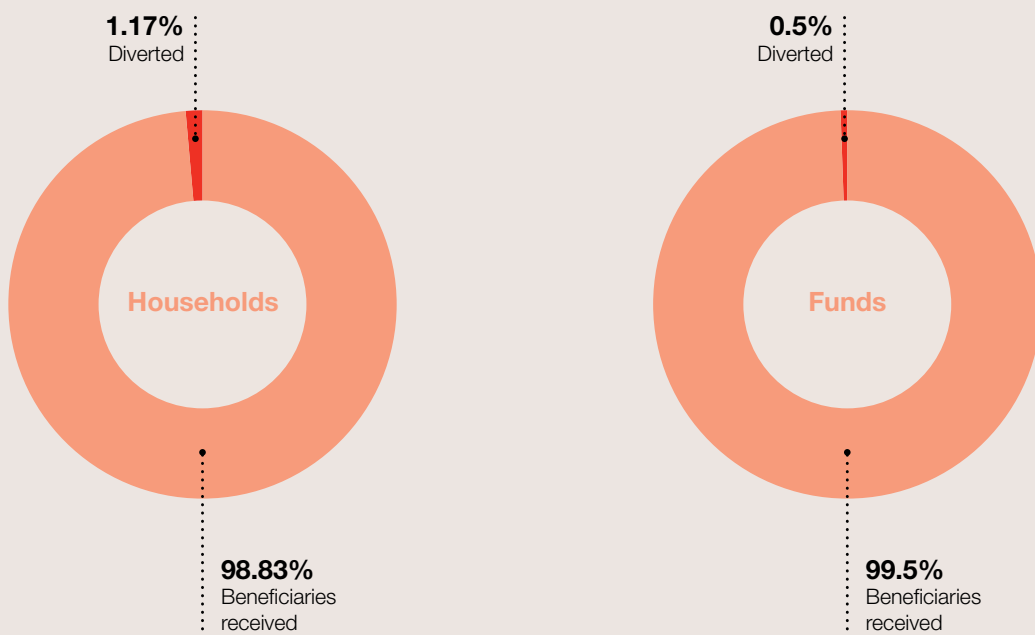


Diagram 2: Proportion of the misused funds



4. IFRC and NS response to the incident

Identification of the fraud

Through the post-distribution monitoring activities, irregularities were detected by the National Society which raised concerns about the possible misuse of the ATM cards. This included finding in the beneficiary list:

- Households that were not meeting the criteria
- Households who were relatives of a branch personnel²
- Households living outside the target areas
- Households withdrawing cash in a different city than the resident city registered

These concerns were shared with the partners and the CTP team agreed that further analysis and investigation were needed to address the inconsistencies and irregularities to ensure that the cards were indeed received by all of the eligible households. At this point a technical team informed their line managers which was reported to the Geneva Secretariat. An internal investigation was performed initially by the National Society followed by a joint one with IFRC. To maintain transparency, partner donors were also informed of the situation at this stage. An independent review of the internal investigation was later commissioned by the IFRC.

Analysis and investigation

A working group of five made up of partner stakeholders led by the IFRC and the host National Society was assembled to deliberate and determine:

- the incident, the findings, the impact and the measures that would then need to be in place
- the structure of the human resources (HR) involved in the programme
- the actions to be implemented in order to ensure the continuity of the programme

This working group was also tasked to guarantee that the remedial actions and necessary safeguards were in place in order for the programme to continue.

Screening and identifying cases of fraud

Several sources were reviewed including the internal database, bank statements, weekly bank reports, complaints list, distribution list and beneficiary agreements. Elements of analysis included the cash withdrawn, replaced cards, complaints, duplications, late distributions and households that did not receive a home visit.

The collected information was used to triangulate cases by revealing several inconsistencies:

- eligible households reporting to never receiving their ATM card
- cash being withdrawn in a different city than the registered resident city
- reports from the complaint hotline did not match with the internal investigation

² In other cases, this in itself is not a reason for suspicion and would need to be fully verified. However, in this programme, the targeted households were those affected by the population movement. Therefore, relatives of nationals was an indication of ineligibility.

Confirming cases

Identified cases were discretely contacted via phone to verify whether they have received their ATM cards. The suspected cases were followed-up with consultations and visits to the bank to review the video recording of ATM withdrawals of the cases. By reviewing the video recordings, the working group were able to verify and identify the people involved, the amount inappropriately withdrawn and the places of withdrawal compared to the place of household residence.

Actions taken³

Funds for this programme was suspended until the conditions for continuity were met:

1. All households in the community where fraud cases were confirmed were checked and verified. Those households not meeting the criteria were removed from the programme. The project manager also recommended a change in beneficiary list by using a registered list from a UN agency which has been verified by a third party NGO with no connection to the Movement as opposed to the list originally identified by the National Society.
 - Rationale: segregating the function of household selection, household verification and programme implementation separates the ability to perpetrate and conceal
2. The National Society would no longer distribute the prepaid debit cards without an IFRC representative present at the distribution.
 - Rationale: increased oversight by an accountable third party helps reduce the appeal for fraudulent activity
3. The responsibility of the complaint line was transferred from the National Society to the IFRC who reports issues to the IFRC project manager and National Society daily for resolution.
 - Rationale: increased segregation of duties separated key functions in order to decrease the chance of concealment and increase the chance of detection
4. Added layers of security to the database was in place and exported to IFRC for continuity.
 - Rationale: more secured access and non-implementing management of the database reduces risk of malicious modifications to the beneficiary list

5. The withdrawal method was upgraded to use biometric identification as part of the registration process and is used to withdraw cash at the bank.
 - Rationale: virtually eliminates the risk of false authentication that exists with pin codes and potential loss of cards
6. After concrete evidence was collected (e.g. video footage withdrawing cash), all project staff involved in the fraud were removed from the project and dismissed. The misused funds were also requested to be reimbursed by those involved.
 - Rationale: enforces zero tolerance for fraud
7. An independent review was conducted to maintain transparency and accountability to stakeholders and donors.
 - Rationale: an objective analysis from a third-party on whether the internal investigation report was conclusive and adequate or required further actions.

Programme continuity

Due to the corrective actions and response to the incident by both the National Society and the IFRC, enough confidence and trust was regained by partner donors to continue the programme to completion. The acknowledgement and willingness of involvement from the affected National Society throughout this process at all levels, including leadership, allowed for an accountable response. Though a laborious process, taking action while remaining transparent was the way to maintain the credibility and protect the image of the National Society and IFRC partners.

The independent review of the internal investigation process and report made further recommendations for management to consider. Senior management's response to these recommendations were based on the fit for purpose risk management, available resource and feasibility. For example, the recommendation to call every household in other cities of the programme where the feedback mechanism was functioning properly was deemed excessive beyond performing random monitoring calls to a sample of the households.

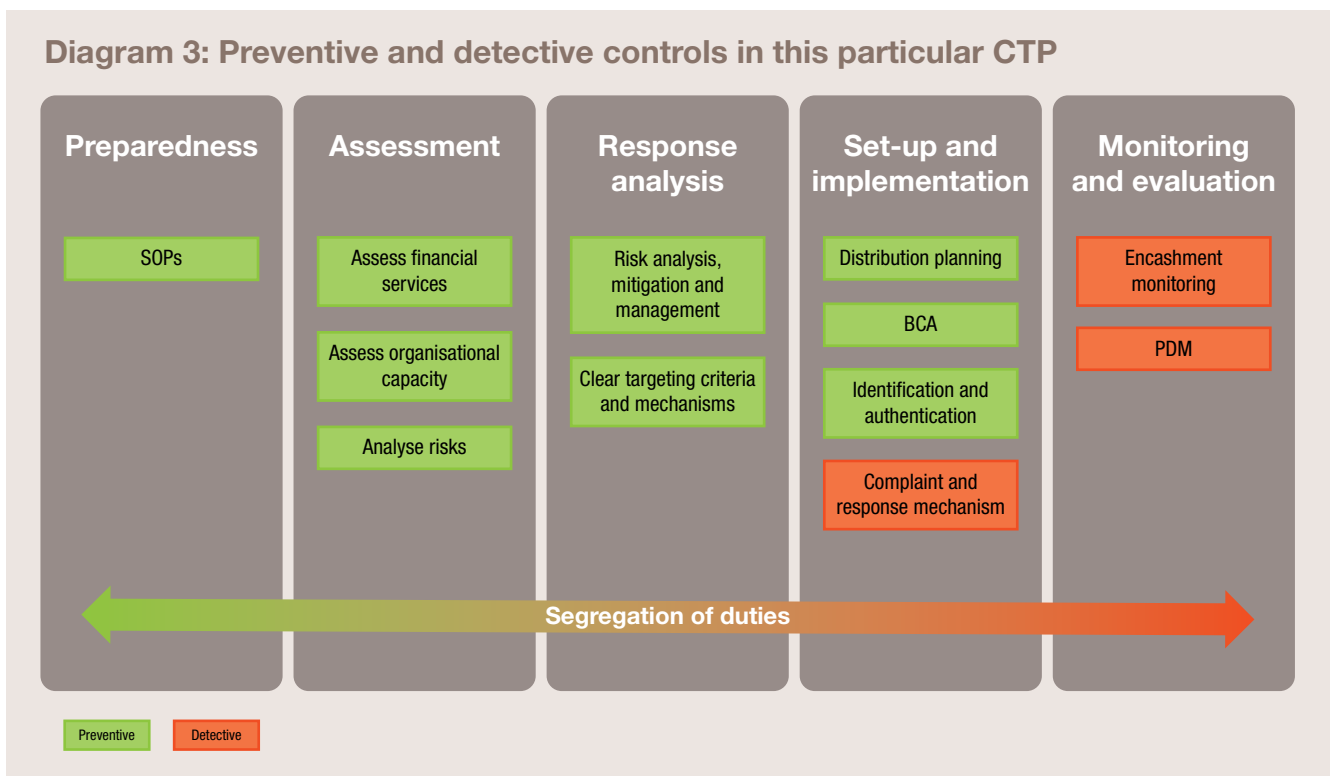
³ It should be mentioned that not all these conditions are necessary in order to implement a CTP, but were instead specific conditions requested by the donors in this particular incident for programme continuation. For example, transfer of certain responsibilities from the National Society to the IFRC is not common as National Societies should and typically do play the leading role in programme implementation. In any other instance, it is encouraged that IFRC works closely with the National Society and have joint oversight where specific technical supervision, such as the complaint mechanism, is needed. Another requirement of using an external beneficiary list is also not necessary in a typical programme if a robust monitoring process was in place for the application of the household selection criteria.

5. Lessons learned on key mitigating controls

In cases of fraud and corruption, there are generally three elements which individually can be addressed to prevent the act: 1) perceived opportunity, 2) rationalisation and 3) motive.⁴ At a programmatic level, perceived opportunity is the most susceptible element in preventing fraud. In cash transfer programming, there needs to be both preventive and detective controls in place and segregation of duties to make fraud activities less inviting.

Preventive and detective controls

In this case, several key preventive measures failed allowing some diversion of funds, but were eventually caught through the detective measures that were in place. The key preventive control which could have been further improved was segregation of duties.



Segregation of duties

Segregation of duties is a key internal control intended to reduce the risks of fraud and error. The level of segregation that is needed and/or feasible varies with the context, programme design and available resources. However, *the basic principle remains the same such that no individual/group should be in the position to both perpetrate and conceal in the normal course of their duties.* This separation helps to minimise the risk by reducing the chance of concealment, acting as a deterrent, and increasing the chance of detection. At a minimum, the detective controls need to be completely independent from the implementers. However, for controls to be effective, there must still be diligent oversight.

⁴ IFRC (2012). 'Fraud and corruption prevention and control policy'.

The system needs to be set up where duties are segregated by function and not based on individuals. Having a system with segregated duties in place also removes the sensitivity of mistrust when it is standard practice.

Segregation of duties applies across the project cycle and across activities, and further controls can be added depending on the delivery mechanism. For example, further segregation of duties need to be applied for preparing cash in envelopes such that the individuals who are stuffing each envelope with the cash grant are not doing the random spot check who are also not sealing the envelopes.

In this particular case, segregation of duties for household identification, distribution and complaint mechanism from the beginning of the programme within the National Society would have been the key. Instead, as these activities were done by the same group, it prolonged the fraudulent activities as there was no independent feedback mechanism. Complaints from households not having received aid were answered by those who withheld the cards from them and were able to stall the response while they withdrew cash monthly. Separating these duties should have resulted in earlier detection of fraudulent cases and minimised the perceived opportunity. The conditions for programme continuation after the incident in this case study involved segregation of duties across different organisations (e.g. household selection done by a UN agency, verified by a third party NGO and implemented by the National Society). However, this level of segregation is not always necessary and was only demanded based on this particular context.

As per the IFRC CBP standard operating procedures⁵, the key functions that must be segregated such that not one person can perform more than one of the listed roles:

- Custody of cash or vouchers
- Authorisation/approval of payments
- Beneficiary selection
- Management of third party supplier/financial intermediary appointment process
- Recording and reconciling of transactions
- And, ideally, feedback mechanism.

6. Recommendations and key messages

Minimum standards

Based on the Red Cross Red Crescent Movement's Cash in Emergencies toolkit⁶, below are the minimum standards pertaining to risk mitigation that needs to be considered across the different phases of any project cycle.

Preparedness

- Pre-disaster baselines should include an analysis of key stakeholders, market conditions, service providers' capacity, community access and preferences, and risks associated with a potential CTP response.
- A cash feasibility analysis based on the baseline findings, particularly beneficiary preferences, and market and service providers' capacity should be carried out to identify the response modalities and mechanisms that are more suited to respond to the scenarios developed.

⁵ IFRC. (2015). 'IFRC Secretariat Cash Based Programming Standard Operating Procedures'.

⁶ www.rcmcash.org

- A self-assessment exercise should be carried out with the participation of decision-makers from key departments to identify organizational capacity gaps to implement CTP at scale and in a timely manner.
- CTP standard operating procedures (SOPs), systems and procedures should be agreed upon, made widely available and updated periodically.

Assessment

- Cash-specific information gathered at community and household levels should include: access to and use of cash, markets and financial services; beneficiary preferences; and perceived risks associated with cash.
- The capacity of National Societies and partners to implement CTP timely and at-scale should be assessed.
- Completion and documentation of a risk assessment including at least the identification of context, institutional and programmatic risks associated with a potential cash response.⁷

Response analysis

- Modality and mechanism selection should be based on a comparative analysis that includes at least risks/mitigation and costs.
- The capacity of the agency/partner to deliver cash through the selected modality/mechanism must be considered.
- The choice of the targeting mechanism should be based on consideration of costs, accuracy, feasibility and timing.

Set-up and implementation

- Define roles and responsibilities in alignment with existing SOPs and in agreement with external stakeholders, including the government.
- Develop a beneficiary communication and accountability system with clear definition of roles and responsibilities.
- Register only those who are eligible to receive the transfer, and ensure that beneficiary identification abide by national financial regulations.
- Verify the list of beneficiaries by random household visits or other appropriate way.

Monitoring and evaluation

- Planning for CTP monitoring and evaluation must start at the setup phase.
- Make sure that the monitoring team is trained and tools are tested.
- Ensure some level of direct monitoring by RCRC Movement team, even when encashment is done through a third party.

Some additional considerations

- Employ delegate(s) proficient in the local language – particularly in non-alphabetic languages.
- In the occasion of an investigation, real coordination needs to take place to involve the stakeholders both at the Secretariat, zone and country level to ensure accurate representation and involvement – especially if an external audit is involved.
- Ensure rigorous documentation process necessary to explain, justify and defend the programme should any issues arise as well as to hold us accountable in being transparent including the risk assessment conducted prior to the implementation of the programme.

⁷ See Annex 2. IFRC Risk Management Checklist of the IFRC Secretariat Cash Based Programming (CBP) standard operating procedures

7. Conclusion

With the accepted use and increased expectations for cash transfers both by the affected populations and donors, risks of fraud should no longer be a hindrance in implementing CTP, but should instead be identified and properly managed. In fact, it was because of the paper trail and documentation required by CTP was this level of investigation possible.

Mitigating controls for preventing and detecting fraud is not a separate function in itself and needs to be incorporated into all aspects of our programme activities. The development of SOPs and policies helps establish best risk management practice and acknowledges that strong internal prevention mechanisms and controls are the best methods for preventing fraud and helps identify benchmarks for when to deal with fraud. However, despite putting in place mitigating controls, diligent oversight is crucial in order for these controls to be effective.

The IFRC and its members is committed to high ethical standards, transparency and accountability to all internal and external stakeholders. However, the current heightened standards of CTP compared to its in-kind equivalent needs to be adjusted and be made realistic in order for CTP to be used effectively as a response option. Fit for purpose risk management is important, not only to CTP, but also to our wider disaster response so that we are able to respond efficiently and effectively to those who need the support the most.

This also highlights the importance of preparedness work for CTP during peace time. Considerable investment needs to be made to build the capacity of both IFRC and National Societies in order to deliver robust and appropriate CTP as donors and affected communities expect responses to continuously be larger and faster to implement. The IFRC is prioritising mainstreaming CTP processes⁸ and building the capacity of its members to remain relevant to the changing humanitarian landscape and continue to be in the forefront of any disaster and crises.

⁸ International Red Cross and Red Crescent Movement. (2015). 'Cash transfer programming: Guidelines for mainstreaming and preparedness'. Available in English, French, Spanish and Arabic.

The Fundamental Principles of the International Red Cross and Red Crescent Movement

Humanity The International Red Cross and Red Crescent Movement, born of a desire to bring assistance without discrimination to the wounded on the battlefield, endeavours, in its international and national capacity, to prevent and alleviate human suffering wherever it may be found. Its purpose is to protect life and health and to ensure respect for the human being. It promotes mutual understanding, friendship, cooperation and lasting peace amongst all peoples.

Impartiality It makes no discrimination as to nationality, race, religious beliefs, class or political opinions. It endeavours to relieve the suffering of individuals, being guided solely by their needs, and to give priority to the most urgent cases of distress.

Neutrality In order to enjoy the confidence of all, the Movement may not take sides in hostilities or engage at any time in controversies of a political, racial, religious or ideological nature.

Independence The Movement is independent. The National Societies, while auxiliaries in the humanitarian services of their governments and subject to the laws of their respective countries, must always maintain their autonomy so that they may be able at all times to act in accordance with the principles of the Movement.

Voluntary service It is a voluntary relief movement not prompted in any manner by desire for gain.

Unity There can be only one Red Cross or Red Crescent Society in any one country. It must be open to all. It must carry on its humanitarian work throughout its territory.

Universality The International Red Cross and Red Crescent Movement, in which all societies have equal status and share equal responsibilities and duties in helping each other, is worldwide.

As CTP is becoming more institutionalized, more expected and more commonly used, standard processes should be established such that key controls are established in preventing, deterring and detecting fraud. Best practices and lessons learned from the Movement is the best way for us to continue improving humanitarian standards and best serve those in need.

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