U.S. Agency for International Development
OFFICE OF INSPECTOR GENERAL

U.S. Department of State
OFFICE OF INSPECTOR GENERAL

COMPLIANCE AND FRAUD PREVENTION

A POCKET GUIDE FOR THE MIDDLE EAST CRISIS HUMANITARIAN RESPONSE

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Clear separations of duties, education about the consequences of fraud, and good internal policies encourage a culture of compliance. They can also serve as a fraud deterrent and limit the impact that a fraud scheme could have on a project.

SUB-PARTNER MANAGEMENT

It can be difficult for implementing partners to verify sub-partner data in a remotely-managed project. For this reason, it is especially important to verify that sub-partners have the capacity and internal controls necessary for the project.

PROCUREMENTS

Procurement fraud is a risk in areas where security concerns can be used to justify a non-competitive procurement process.

QUALITY CONTROL

A strict quality control process can ensure that the items provided to beneficiaries are the same items that were purchased. It can also help achieve program objectives by ensuring that beneficiaries receive good quality, safe, and useful aid.

TRANSPORTATION AND DISTRIBUTION

Diversion, theft, and product substitution are difficult to prevent and identify in cross-border programs. However, there are mechanisms an implementing partner can institute to reduce these risks and identify when a problem has occurred.

FEEDBACK MECHANISMS

It is important that beneficiaries have a way to report fraud, waste, or abuse to the implementing partner. Beneficiaries can use hotlines to report issues including dissatisfaction with an aid package or instances of distributors soliciting bribes.

REPORTING

Implementing partners should have a clear understanding of what to report to OIG and when they should report it. OIG employs trained investigators able to identify whether there is fraud, waste, or abuse in a program. Identifying and eliminating fraud as soon as possible is essential to a program's success.

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INTRODUCTION

The USAID and Department of State Offices of Inspector General have provided this pocket guide to assist implementing partners in their response to the Iraq/Syria humanitarian crisis. OIG compiled this handbook from trends identified in investigative experiences and meetings with USAID implementing partners across the region. This guide is designed to be used as a quick reference and may be useful for the DART's future site visits with implementing partners or sub-partners. Upon request, OIG can provide more detailed information on the subjects included within this guide.

Corruption takes many forms, including financial and non-financial crimes such as procurement fraud, nepotism, bribery, embezzlement, theft, or product substitution, among others. Corruption in humanitarian assistance can be particularly egregious when it diverts resources from the most vulnerable populations. We can improve the efficiency and quality of USAID programs by remaining vigilant against fraud and working to eliminate corruption, waste, and abuse from humanitarian work. It is particularly important to remain vigilant in areas where security measures are instituted to protect staff and normal procedures are circumvented due to the immediate demands of a crisis.

Vigilance can include fraud awareness briefings, which the OIG provides as frequently as possible. It can also include regular interviews with implementing partners about internal controls and best practices used by other partners in the area.

Fraud often goes undetected in non-forensic annual audits. However, USAID OIG employs investigators, auditors, and analysts trained to detect fraud. OIG also recommends local audit firms upon request. If you are aware of any instances of fraud, waste, or abuse, contact the OIG Hotline. All complainants are offered confidentiality. For more information on fraud reporting requirements, see the final page of this handbook.

HOTLINE

E-MAIL

ighotline@usaid.gov

COMPLAINT FORM

https://oig.usaid.gov/content/oig-hotline

TELEPHONE

+1-202-712-1023 or 1-800-230-6539

MAIL

USAID OIG Hotline
P.O. Box 657
Washington D.C. 20044-0657

HOW TO USE THIS HANDBOOK

Questionnaire

*If you are a USAID employee, use the first section as a **questionnaire** to identify strengths and deficiencies in an implementing partner's internal controls. It is best to visit the partner's offices and directly ask all listed questions in person. Note all instances in which the implementing partner is unable to provide a response. If you are an implementing partner employee, use this section to self-evaluate your policies and procedures. Record the responses for comparison with best practices and red flags (below).*

Best Practices

*Use this section to compare the questionnaire responses with **best practices** used by implementing partners operating in Turkey, Jordan, Syria, and Iraq. The listed best practices were developed in response to the specific challenges present in cross-border humanitarian operations. Items in this section are provided a check box. Add the number of check boxes together to quantify potential risk factors faced by the implementing partner. The more items that are checked, the lower the risk of fraud. It is important to remember, however, that fraud can occur under any circumstances, including favorable ones.*

Red Flags

*The last section lists **red flags**. These are factors that, if mentioned by the implementing partner, should raise concerns. If you are a USAID employee, use the responses to evaluate possible deficiencies in the implementing partner's internal controls. Discuss ways in which the implementing partner can improve any identified red flags. If you are an implementing partner employee, use the results to identify areas for improvement in your policies and procedures. This list should not be taken as a comprehensive list of high risk behavior. If you identify behavior that you feel is indicative of fraud and that is not on this list, feel free to share this information with OIG.*

INTERNAL POLICIES

Questionnaire

- What fraud prevention training do you provide your staff? How often?
- What deviations from organizational internal control policies have been authorized for your country office? Why?
- What internal controls do you employ to identify corruption, fraud, and theft?
- What policies do you have for petty cash handling? Under what circumstances do staff handle cash and how do you prevent staff from absconding with it?
- Do you have a conflict of interest policy? Are staff required to update their declared conflicts of interest any time a new one may arise? Do you have a clear idea of what constitutes a conflict of interest?
- How do you vet grantees, partners, beneficiaries, and employees? Do you collect references and conduct security checks?
- How have you ensured there is a separation of duties between procurement, finance, compliance, quality control, and program staff?

- How do you handle allegations of fraud? Do you have a procedure for internal assessments?
- Do you share information with other USAID partners about vendors, sub-partners, and employees involved in instances of fraud?

Best Practices

- ❑ Fraud awareness training is required annually. Procurement, finance, and logistics staff have additional requirements.
- ❑ There is a confidential reporting mechanism for employees to make complaints directly to headquarters or an external entity.
- ❑ Employees are required to complete and update conflict of interest forms annually and whenever there is a change in an employee's contacts or financial interests. Family names are compared with vendor names, beneficiaries, and new hires.
- ❑ Staff coordinate with other implementing partners to gather references for employees and vendors. It also performs regular OFAC and SAMS checks.
- ❑ Your organization believes it is important to have good lines of communication between country, regional, and HQ staff. Regional and HQ staff have visited every country office and country staff feel they can report problems to regional or HQ supervisors.

Red Flags

- Your organization does not anticipate fraud and believes kickbacks, collusion, and theft are rare.
- For security or reputational reasons, your organization claims it cannot share information with other partners about corrupt staff, vendors, or sub-partners.
- Your organization has been operating in the area for several years and continues to have a number of waivers and deviations from normal policy.
- HQ or regional staff have never visited the country office.
- Your organization does not provide conflict or interest or anti-fraud training or materials.

SUB-PARTNER MANAGEMENT

Questionnaire

- How do you ensure sub-partners don't bill your organization for work also billed to another USAID partner or donor? Do you know which sub-partner staff and programs are also funded by other donors?
- How do you verify the existence and capacity of sub-partner employees and facilities?
- How do you verify that the sub-partner's expenses are allowable and reasonable?
- How frequently do you visit the sub-partner's facilities and distribution sites? Do you do so unannounced?
- Have you met with your sub-partner to discuss its internal controls?

Best Practices

- ❑ You contact other NGOs for reference checks and (if they share a sub-partner) compare charged costs.
- ❑ You examine supporting financial documents to ensure signatures are unique and prices are reasonable.
- ❑ You verify the existence of sub-partners through site visits, research and document reviews.
- ❑ You coordinate with sub-partner HR staff to ensure your organization is not making salary payments to ghost employees or staff members no longer employed by the sub-partner.
- ❑ Your organization uses a third party to randomly verify beneficiaries received the proper quality and quantity of aid and sub-partner staff received full salaries.

Red Flags

- You believe the sub-partner is the only organization in the area with access.
- You do not conduct random site visits at your sub-partners' offices, warehouses, clinics, etc.
- Your sub-partner has no fraud reporting mechanism for beneficiaries

PROCUREMENTS

Questionnaire

- What procurement process do you use? What occurs in each step of the process?
- What documentation (ie. registration, references) do you require in a bid package? Do vendors create the bid sheet themselves, using their own letterhead and format?
- Do you incorporate quality control in the bid evaluation process? Do you request that vendors submit samples? How do you ensure this process is not biased?
- Have any emergency waivers been granted to your organization's normal procurement standards? Why? For how long?
- How do you ensure you are receiving fair market value for goods and services? Do procurement staff conduct market research?
- If you use a preferred vendors list, how do you select the vendors? How frequently is it updated? Does the same person who works on the vendor list also solicit bids, conduct bid analyses, and perform vendor site visits?
- How do you verify the existence and capacity of vendors? If you conduct site visits, how do you prevent procurement staff from regularly visiting the same vendors?

- Do you keep bid samples with the full procurement files? If not, why?
- What internal controls does your organization have to prevent collusion between staff and vendors?
- Who sits on the bid opening committee and does it utilize a rotation?

PROCUREMENTS CONTINUED

Best Practices

- ❑ You conduct reference checks and site visits of competing vendors to verify their existence and capacity.
- ❑ You publically announce tenders as frequently as possible. If you use a preferred vendor list, you frequently update the list through open competition.
- ❑ You frequently conduct market research for goods and services. Staff compares bids to researched prices in an effort to prevent overbilling.
- ❑ You include a hotline number and anti-kickback disclaimer on bid solicitation forms.
- ❑ Bids submitted from vendors are evaluated for common contact information, headers, and employees.
- ❑ All bid samples are kept with the full procurement records for three years after the program ends.
- ❑ Staff only collect bids and correspond with vendors via official phones, computers and email accounts.

Red Flags

- Your organization has a high threshold for publically advertised procurements.
- Your organization frequently uses sole source waivers and frequently justifies procurement decisions with subjective product quality or capacity reasons.
- Staff collects bids in person from the same vendors without witnesses or rotation.
- Procurement staff solicit tenders with very short response times or specifications such that only a specific vendor could win the contract.
- You select vendors based on quality but do not keep bid samples for later review.
- Your quality control process is based on contract specifications and not the bid sample.

QUALITY CONTROL

A rigorous quality control process ensures the items you procure for distribution are high quality. It can also help identify and deter product substitution. Quality control teams ideally utilize an unbiased and quantifiable evaluation process and include technical experts independent from the procurement department.

Conducting market research and scored evaluations of samples will determine whether items are high quality and fairly priced. Item quality can be verified before distribution through a number of actions, to include weighing each item in an NFI or food kit, unzipping a mattress cover to inspect the filler, inspecting a larger sample of items before delivery, and comparing delivered items to samples provided during the bid process. Item quality can be verified after distributions through beneficiary feedback mechanisms. Including contact information and an inventory list in each kit allows beneficiaries to notify you when a problem arises.

Small differences in the quality of each item can be a difference of pennies or dollars. However, this cost can amount to thousands of dollars when items are purchased in bulk. Writing detailed contract specifications based on the bid sample can help protect your organization.

A vendor's sample wooden spoon (right) and the wooden spoon the vendor delivered to the partner's warehouse (left). The delivered spoon was unfinished and visibly smaller than the sample.

A vendor's sample teapot (left) compared to the teapot it delivered to the implementer's warehouse after winning the contract (right). The provided teapot was smaller and had no heat rings on the bottom.

A vendor's sample bowl (right) compared to the bowl it delivered to the implementer's warehouse (left). The top of both bowls met specifications but the bottom of the delivered bowl was smaller than the sample.

TRANSPORTATION AND DISTRIBUTION

Questionnaire

- What monitoring and evaluation systems do you utilize to verify distributions?
- In cases of equipment (ie. generators or solar panels), do you utilize serial numbers to track and verify item locations? In cases of pharmaceuticals, do you track items by QR code?
- How do you determine beneficiary eligibility? Does anyone verify that beneficiaries are eligible?
- How do you utilize technology as an monitoring and evaluation tool to ensure aid reaches beneficiaries?
- How is the transportation and distribution process documented? Does anyone review these documents for fraudulent entries (such as fake signatures on distribution documents)?

Best Practices

- ❑ Distributors are required to take geotagged and timestamped photographs of distributions.
- ❑ Shipments are electronically tracked and inventory lists are current and detailed.
- ❑ Items are inspected at the time of delivery by different staff than those who ordered the items.
- ❑ You do not pay drivers or distributors until goods are received at the intended destination.
- ❑ You have hired third party monitors to conduct site visits and verify distributions.
- ❑ You employ in-house monitors in a separate monitoring department.

Red Flags

- You believe you cannot implement many monitoring and evaluation safeguards, like site visits and video recorded distributions, due to security.
- You have no capacity to operate in an area without a sub-partner.

FEEDBACK MECHANISMS

Questionnaire

- Does your organization have a feedback mechanism for beneficiaries, staff, and sub-partner staff? (i.e. via telephone, email, or mobile applications like Whatsapp or Viber)
- How is this feedback mechanism advertised? How can beneficiaries find this contact information?
- Is the feedback mechanism staffed by people involved in beneficiary selection, procurement, logistics or distribution?
- How do the beneficiaries know the precise quantity and quality of items they are supposed to receive, in order to identify when there is a problem?

Best Practices

- ❑ Hotline contact information is advertised on invoices, equipment donated to Local Councils or clinics, banners hung at distributions, on distribution documents, and on aid boxes, bags, or vouchers.
- ❑ Aid packaging has individualized serial numbers or color-coded dots to indicate when and where it was distributed.
- ❑ Descriptive itemized lists and photographs of NFI or food kit contents are provided inside aid packaging.
- ❑ You hold pre-distribution discussions with beneficiaries to discuss what they should receive and how eligibility is determined.

Red Flags

- Your organization does not have an independent beneficiary feedback mechanism.
- There is no way for staff at your organization or your sub-partner to report complaints to personnel outside of their immediate supervisors.
- You are not familiar with technology and how it can be used in humanitarian response programs.

REPORTING

Questionnaire

- What is your process for reporting complaints to USAID OIG? How do you decide what to report and when to report it?
- What is your process for evaluating an incident of fraud/theft/corruption?
- How do you ensure problems and complaints are communicated expeditiously between the field office and headquarters?
- Have you ever reported an allegation or incident of fraud to USAID or USAID OIG?
- Who in your organization is able to communicate potential instances of fraud to USAID OIG?

Best Practices

- ❑ You have an institutionalized process for reporting incidents and allegations to USAID and OIG.
- ❑ You have a dedicated person responsible for preliminary investigations and compliance.
- ❑ You have an interest in determining the extent of a fraud, not just whether it occurred.
- ❑ Your organization reports allegations to every potentially impacted donor.

Red Flags

- You have never received an allegation of fraud.
- You fire staff or take action without notifying USAID or OIG of the incident.
- Previous incidents have not been reported expeditiously.
- Your organization conducts its own internal investigations of fraud or theft-related incidents without notifying USAID or OIG.
- Your organization has conducted numerous fraud investigations relating to a single project while finding no concrete evidence of fraud.

AFTER FRAUD IS REPORTED

1. Initial Notification

When a USAID implementer becomes aware of a potential situation involving fraud, corruption, false claims, or other criminal activity related to a USAID project, it should notify the OIG as soon as possible.

2. OIG Review & Consultation

OIG will review the initial allegation and contact the implementing partner to further discuss the matter. If the allegation involves ongoing criminal conduct, the implementer should refrain from any activity that may interfere with any future or ongoing investigation.

3. Investigation by the OIG

In some cases, OIG will initiate an investigation and will advise the implementer of what actions should be taken.

4. Investigation by Implementer

In other cases, OIG and the implementer may mutually agree that the implementer will conduct its own investigation. At the conclusion of the investigation, the implementer should provide a report of the investigation, a statement explaining any financial loss, and copies of any original documentation reviewed during the investigation.

5. Disclosure of Information to USAID Compliance Division

Once the investigation is completed, a copy of the above-listed documents will also be sent to the USAID Compliance Division at compliance@usaid.gov as well as to the servicing contracting or agreement officer.

REPORTING REQUIREMENTS

MANDATORY DISCLOSURES

2 CFR 200.113: The non-Federal entity or applicant for a Federal award must disclose, in a timely manner, in writing to the Federal awarding agency or pass-through entity all violations of Federal criminal law involving fraud, bribery, or gratuity violations potentially affecting the Federal award.

ADS 303 STANDARD CLAUSE M28: Consistent with 2 CFR §200.113, applicants and recipients must disclose, in a timely manner, in writing to the USAID Office of the Inspector General, with a copy to the cognizant Agreement Officer, all violations of Federal criminal law involving fraud, bribery, or gratuity violations potentially affecting the Federal award. Subrecipients must do the same and additionally disclose this information to the prime recipient. Recipients must include this mandatory disclosure requirement in all subawards and contracts.

REPORTING REQUIREMENTS (CONTRACTS AND SUBCONTRACTS)

FAR 52.203-13: The Contractor's internal control system requires timely disclosure, in writing, to the agency OIG and the Contracting Officer, whenever, in connection with any Government contract or a subcontract thereunder, the Contractor has credible evidence of a violation of Federal criminal law involving fraud, conflict of interest, bribery, or gratuity violations.

COMBATING TRAFFICKING IN PERSONS (CONTRACTS AND SUBCONTRACTS)

FAR 52.222-50: The Contractor must immediately report to the Contracting Officer information obtained that alleges that any employee, subcontractor, or subcontractor employee has engaged in severe forms of trafficking in persons, procured commercial sex acts, or used forced labor in the performance of the contract.

ADDITIONAL HOTLINES

Australia Department of Foreign Affairs and Trade
http://dfat.gov.au/about-us/publications/Pages/fraud-anti-corruption-guidance-dfat-partners.aspx

European Civil Protection and Humanitarian Aid Operations (ECHO)
https://ec.europa.eu/anti-fraud/olaf-and-you/report-fraud_en

Finland Ministry of Foreign Affairs
http://formin.finland.fi/Public/default.aspx?nodeid=49615

German Aid (GIZ)
https://www.giz.de/en/aboutgiz/integrity_advisor.html

The Global Fund to Fight AIDS, Tuberculosis, and Malaria
https://www.theglobalfund.org/en/oig/report-fraud-and-abuse/

Norwegian Agency for Development Coordination (NORAD)
https://www.norad.no/en/front/about-norad/whistleblowing/

Swedish International Development Cooperation Agency (SIDA)
http://www.sida.se/English/contact-us/Whistleblower/

UK Department for International Development (DFID)
https://www.gov.uk/government/organisations/department-for-international-development/about#reporting-fraud

ADDITIONAL HOTLINES

International Organization for Migration (IOM)
http://www.iom.int/office-director-general

United Nations Development Programme (UNDP)
http://www.undp.org/content/undp/en/home/operations/accountability/audit/office_of_audit_andinvestigation.html#report

United Nations Educational, Scientific and Cultural Organization (UNESCO)
http://www.unesco.org/new/en/unesco/about-us/how-we-work/accountability/internal-oversight-service/investigation/how-to-report-fraud-corruption-or-abuse/

United Nations Population Fund (UNFPA)
http://web2.unfpa.org/help/hotline.cfm

United Nations High Commissioner for Refugees (UNHCR)
http://www.unhcr.org/en-us/making-complaint.html

United Nations Children's Fund (UNICEF)
https://www.unicef.org/auditandinvestigation/index_65761.html#Report_Fraud_or_Abuse

United Nations Office for Project Services (UNOPS)
https://www.unops.org/english/About/accountability/IAIG/Pages/How-to-report-wrongdoing.aspx

World Food Programme (WFP)
https://www.wfp.org/contact

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT (USAID)
OFFICE OF INSPECTOR GENERAL (OIG)
OFFICE OF INVESTIGATIONS

FRAUD PREVENTION AND IMPLEMENTING PARTNERS

A POCKET GUIDE FOR THE MIDDLE EAST CRISIS HUMANITARIAN RESPONSE

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EDITION FOUR

Photographs within this handbook are courtesy of USAID at https://www.Flickr.Com/photos/usaid_images/albums. Cover image is courtesy of ESRI graphics