



Fraud Trends & Risks in Humanitarian Settings

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The Inspector General



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Inspector General

- Appointed by the President and confirmed by the Senate
- Provides *independent* oversight through:
 - Program and financial audits
 - Investigations
- Reports findings to Agency head, Congress, the President, and the Public
- Full law enforcement authority in the United States



OIG Investigations



OIG conducts independent investigations into allegations of fraud, corruption, criminal activity, and misconduct in USAID programs worldwide.

OIG has personnel dedicated to overseeing programs for certain humanitarian crises



Types of Investigations



Criminal - potential violations of U.S. or foreign laws –
OIG will work with host nation governments when possible

Civil - Civil matters may be addressed during a criminal investigation or as the sole focus of an investigative proceeding.

Administrative - the act committed or the alleged infraction involves violations of Federal rules or regulations



Source of Allegations



- Self-disclosures by implementers
- Hotline calls
- Reports from donor program staff
- Audits/inspections
- Referrals from other agencies
- Other investigations
- Confidential witnesses



Confidential or Anonymous Information



- Confidentiality highly protected
 - Reconstruct information from witness when possible
 - Rare exceptions (trial, self disclosure)
- We respect anonymity – OIG Hotline
 - Please provide as much detail as possible
 - Respond to the anonymous email



USAID OIG Hotline



Receives complaints of fraud, waste, and abuse
in USAID, ADF, IAF, and MCC programs and
operations

Complaints are received via phone, mail, or e-mail

Hotline Number: +1-202-712-1023
+1-800-230-6539

E-mail: ig.hotline@usaid.gov



Fraud Reporting Guidance



- USAID implementers are required to report fraud or corruption to the agreement officer and OIG in writing in a timely manner (2 CFR 220.113)
- Implementers must report conflicts of interest and violations of the counter trafficking in persons clauses to agreement officer
- We encourage you to report as early as possible!
- Report to other donors according to policy



Common Fraud Schemes



- Ghosts beneficiaries and employees
- Diversion to armed groups
- Procurement fraud
 - Bid Rigging
 - Kickbacks
- Product substitution
- Dual-billing multiple donors
- Thefts/diversions from warehouses or transport



Phantom Schemes



- Ghost Beneficiaries
- Ineligible Beneficiaries
- Ghost Employees
- Ghost Programs



Beneficiary feedback is key



Prevention



- Third Party Monitors
- Pre-distribution verification – but don't just go through the motions
- Post distribution surveys
- Scrutinize supporting documentation – payroll forms, beneficiary sheets, employee contracts
- Verify your own staff often! Conflict of interest statements often. **Don't be over-trusting.**



Procurement Fraud



- Collusive bidding
- Inflated Prices
- Product substitution
- Shorting deliveries
- Bribes and kickbacks
- Fake procurements





Fair & Open Competition



- Restricting procurements to exclude or hamper any qualified contractor
- Limiting the time for submission of bids
- Revealing any information about procurement to one contractor
- Failure to assure that a sufficient number of competitors are aware of the solicitation
- Engaging in improper communications or social contact with contractors
- Procurement personnel discussing possible employment with a contractor or subcontractor for themselves or a family
- Unnecessary sole source justifications



Bid Rigging



- Winning bid rotates amongst small ring of companies
- Losing bidder becomes a sub-contractor for the prime
- One bid is drastically lower than others, or other bids amounts differ by exact amounts (e.g. each bid is \$140,000 more or less than the others)
- All but one company withdraws their bids
- Only one company meets specifications in the solicitation
- Over-inflated bids



Inflated Prices



- Procurement waivers
- **Zero market research (example: plastic tarps)**
- Unusual split of one award to multiple vendors, “cherry picking”
 - No reasonable method
 - One vendor has higher amount than others
- Unreasonable justifications
 - Production Capacity
 - Delivery Time
 - Quality
- Little to no supporting documentation justifying the selection of a higher priced vendor



Fraud in Subawards



- Just because your process is perfect doesn't mean that bribery and kickbacks will not occur
- Typical ways of soliciting bribes/kickbacks
 - To get the application or RFP ("registration fee")
 - For favorable consideration (Cash on Delivery)
 - As appreciation and to secure future contracts
- Preventive Measures
 - Mark all applications/RFPs with a statement that no payment is required to apply
 - Clearly mark on application, materials, or web site where people should report instances of potential corruption
 - Spot check your own process by trying to apply for a grant or subcontract to see what happens



Bribery / Kickbacks



- Look for indicators amongst staff
 - Undue affluence
 - Residence
 - Vehicles
 - Clothing or jewelry
 - Frequent vacations or travel
 - Overly comfortable with vendors or subawardee staff
 - Refusing promotion or job changes



Prevention



- Public solicitation/advertisement (avoid procurement waivers or restricted vendor lists)
- Vendor/Bidder Verification
 - Do the vendors exist? Do they have the capacity?
 - Do they have relatives on your staff? Is there a conflict of interest policy that is actually adhered to?
 - Did staff outside of procurement attend vendor verifications?
 - Were the bids scrutinized for common contacts, format?
- Market Research/Price Verification
- Solid quality control procedures
- Segregation of Duties
- Contact with vendors via org boxes and official email or phones
- Include a hotline number and anti-kickback disclaimer on solicitations



Product Substitution



- Inferior goods
 - Cheaper brand
 - Lower quality material
 - Smaller items
 - Country of Origin
 - Defects
- Lower quantity
 - Smaller volume
 - Lower density
 - Smaller number of items
- Shelf life





Prevention



- Detailed item specifications in contract
- Contract terms that deter vendors from engaging in product substitution
- Pre-agreed secondary products (if bid sample product unavailable)
- Market research and price analysis (price inflation/quality standards)
- Quality control program that compares bid sample to delivered products
- Segregation of duties
- Beneficiary surveys and third party monitors
- Unannounced warehouse/vendor visits!



Double Billing



- Occurs most frequently in local NGO office or INGO country office
- Labor, rent, and vehicles are the most frequently double-billed costs
 - E.g. employee charges 8 hours to both USAID and DFID but only works 8 hours
 - Full rent is charged to both donors rather than cost shared
- More common in dual-funded programs



Prevention



- Desk audit
- Accounting audit
- Statistical sample of time sheets
- Electronic timekeeping (paper timesheets are risky)
- Robust accounting system (where accounts are clearly identified)
- Again...don't blindly trust your staff



Key issues that Implementers struggle with



- Well documented policies that are not followed
 - Lack of policy contextualization for the operational context
 - To Fix: train regularly, contextualize policies as necessary.
- Internal Controls without Quality Controls
 - Segregation of duties without tests
 - To Fix: send experts from HQ to the field to test controls regularly. Don't assume a training is sufficient.



Key issues that Implementers struggle with



- Whistleblower hotlines with poor access
 - Circular intra office reporting or closed systems that create a chilling affect
 - To fix: provide multiple avenues for disclosure and ensure retribution for unproven allegations is not built into the system.



Pocket Guide

- Fraud Prevention Pocket Guide created for NGOs and donors
- Available for Syria context and generic version as well
- USAID currently translating into Arabic





Prevention starts with YOU!!!

If you think something is wrong...notify your respective donor and its IG equivalent!

QUESTIONS?