

Fraud protocol

Deputies of deaconry CGK

April 2014



Aim of the fraud protocol

This fraud protocol is designed to reduce the risk of fraud and financial disability. But it is also designed to create an awareness within our partners for the possibilities of fraud and financial instability. And if fraud occurs we hope this fraud protocol, once it is implemented, will reduce its impact and guide the partner to a quick and proper solution.

Fraud protocol

1. If irregularities are found the matter should be investigated internally first to know for sure what 's going on: financial fraud or financial incompetence. From outside the organization certain signals could also be heard that could indicate that something may be wrong within the organization of the partner. Also internal checks may give rise to suspicion. Possible signals are separately described in an annex (Annex 1).
2. When a suspected fraud and/or financial incapacity occurs the following measures should be taking:
 - 2.1 if it becomes clear that it is financial incompetence the organization will take appropriate measures to improve the capacity of the person involved and eliminate his or her incompetence. If necessary deputies are willing to support the organization in this regard.
 - 2.2 If it is clear that it is most probably a suspected fraud the person involved should temporarily be suspended of all his or her duties as long as the investigations are on its way.
 - 2.3 In that case deputies should be informed immediately, also about the measures that have been and will be taken.
 - 2.4 If the suspected fraud has been verified and proven the person involved should be laid off immediately and a decision will be taken if the goods and/or funds unduly spent have to be repaid or retrieved.
 - 2.5
3. If deputies discover or suspect that there are irregularities at the partner in the execution or administration of a supported project
 - 3.1 They immediately but temporarily will suspend all outstanding payments for the project.
 - 3.2 They will request that an investigation will be carried out and that a financial and progress report will be required. This report should be supported by pictures if possible.
 - 3.3 If requests for information are not honored or even denied by the partner all payments will be stopped until such information has been provided.
 - 3.4 If necessary deputies will decide on an additional visit to have a clear picture of all the proceedings and measures taken.
 - 3.5 If it is clear that it is financial incompetence deputies are willing if necessary to support the organization to enhance the capacity of the persons involved and to eradicate the incompetence. The financial incompetence together with the measures taken to overcome it will have to be mentioned in the report separately.
 - 3.6 If it becomes clear that it is indeed fraud the partner should take appropriate measures as mentioned in 2. In such cases the partner should look into the pros and cons of legal proceedings
 - 3.7 If the financing of the project is also obtained through a third party e.g. via EO-Metterdaad, Prisma, Wilde Ganzen, etc. deputies will also report to that party the presumption of both fraud and financial incompetence.
 - 3.8 Special attention should be taken if a fraud case within the organization has been revealed by the press or by sources outside the organization as it may hurt the reputation of the organization severely.

Publication of the Fraud Protocol

The so-called fraud Protocol is published on the website of deputies diaconate.

In addition, the protocol will also be included in the financial agreements concluded with all the partners of deputies diaconate.

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How to handle with fraud in the organization?

Introduction

Annually Deputies for deaconry of the Christian Reformed Churches in the Netherlands make funds available for some 40-50 projects. The size of the funding ranges from several hundred euros for small-scale projects to tens of thousands of euros for large (emergency) projects. The monitoring and evaluation of the proper use of these funds is the direct responsibility of deputies. The deputies mandated its office 'diaconal bureau' to monitor and evaluate the proper spending of these projects.

Monitoring & Evaluation

Nevertheless is the monitoring and evaluation of a project and its spending the direct responsibility of the funded and implementing organization. The implementing organization will use its own expertise and contacts to monitor the proper spending. In most cases organizations have procedures to handle this monitoring properly and if a local organization is implementing the project to assess the capacity of that organization to carry out this (these) project(s).

The funding should not overload the organizational capacity of the implementing organization, and the implementation of the project and the accountability to the donor should never be at stake.

The monitoring focuses on monitoring the progress of the project during the implementation thereof.

The evaluation focuses more on activities that have contributed in achieving the objectives of the project.

As a result of the (preferably ongoing) monitoring and evaluation changes in policy and funding may occur but should be reported directly to the diaconal bureau.

For both good monitoring and evaluation observations, reports and visits are required to make sure that the established indicators are met. The results are reported in the progress report or the evaluation report.

Despite measures taken to ensure and account for proper spending of funds, it is possible that reporting falls short and/or funds are not spent on the agreed purpose. Therefore, all partners involved in a certain project must be alert for irregularities in the implementation and the reporting of funds. This document describes broadly what measures deputies of diaconate CGK will take in case of irregularities and which measures they expect their partners take if fraud occurs.

Segregation of duties and capacity

Deputies of diaconate insists that the partner have a proper segregation of duties in place. The most relevant separation of duties is between individuals who operate or execute the project and individuals who are on the board that control it. A stacking of these functions at the same person should be avoided wherever possible. Every partner should have therefore an proper and realistic organogram available for deputies.

Every partner of deputies, mostly a church and/or a church related organization, should be capable to execute its project(s) and report on it (narratively and financially) without any difficulty for the organizational and operational capacity.

Fraud or financial incapacity

Despite measures taken to ensure proper spending and reporting, it is possible that an organization does not report as agreed upon or that there is a suspicion that funds are not spent properly for the project.

This doesn't mean that fraud had been committed as this could also be the result of financial incompetence.

Therefore it is necessary that the implementing organization is alert that irregularities in the implementation and the reporting may happen in order to avoid fraud, and if fraud occurs to contest and to address it in the most appropriate way. But if financial incompetence comes to light the implementing organization should absorb it by strengthening the financial capacity of its workers.

When it becomes known that a church (organization) is fraudulent, we all know that it will have a major impact in the society for the image of the church in general (and also for the work of deputies). Therefore fraud should not be tolerated at all but be eradicated and avoided by all means.

But take note

Financial incompetence is almost always due to the lack of internal resources, both in personnel and in knowledge, but also of funds, systems and equipment etc. to manage funds and to compile required reports.

However, fraud takes many different forms, but its essence is the same: people (or organizations) take money, property or assets to which they are not entitled and thereby affect the rights of others and jeopardizing the project and the people for should benefit from it. Most of the time by doing so they steal from the poor. They do so by not performing tasks they agreed to do; by declaring that these tasks are carried out and cash the costs of it; by increasing costs and put the surplus into their own pockets. In all cases earmarked money/results for the beneficiaries of the project are severely minimalized or even jeopardized.

In the Criminal Code, the concept of fraud as such is not clearly defined. The term fraud is usually used for things like forgery, deceit, corruption, theft or embezzlement.

In short: when it comes to fraud a willful act that is unlawful or illegal is executed and a misleading presentation of the facts and the contractual provisions is given with the ultimate goal of obtaining financial benefit to the person(s) itself.

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APPENDIX 1 - SIGNALS

The following signals (source Mango) may indicate fraud or financial incompetence, but these signals are not limited to those mentioned here.

Assessing the situation from 'outside':

- Reports has not yet been received six months after completion of the project period;
- The external auditor provides the statement with a number of limitations, for example information that was not available or an event which is not certain whether it is going to happen or not;
- One (anonymous) letter of (ex)employees, of the targeted group or some external parties;
- An external evaluator reports that goals are not achieved because of organizational problems;
- Lack of transparency in financial reporting about
 - the allocation of costs to the various projects;
 - which costs are allocated to which line of the budget;
 - how the organization deals with foreign currency and interest income;
- The organization does not want to participate in an external evaluation;
- Other donors withdraw their funds or cut down their funding;
- The organization is on a blacklist of other donors and there are rumors among fellow organizations (most blacklists of donors, however, are not freely accessible);
- The development of the expenditure budget lines are inconsistent with the budget (e.g. high salary or transport while the project-related expenditures remain).

Assessing the bookkeeping of the partner:

- Many corrections in his account book;
- Written records appear to have been written at the same time (same person and/or pen – this could indicate a registry rewritten or duplicated);
- Receipts are entered very late in the books (e.g. only after the bankbook or cashbook is made up to date);
- Books are worked on irregularly and badly kept up to date – by doing so managers can't detect irregularities easily;
- Missing supporting documents.

Possible non-financial signals during a visit

- An employee is always the first at the working place and the last to leave;
- An employee does not take vacation and prevents that another one looks into his papers/books;
- The standard of living of one of the employees has changed suddenly or is not in accordance with the income;
- A smoke curtain is raised: others accused in order to gain time.

Possible sanctions

- Retrieve additional/interim financial reports, progress reports and photographs;
- Carry out an additional (or underlying) request for information or an external audit;
- Stop payments;
- Recover payments;
- Start a legal procedure.

Appendix 1 – signals for fraud