

IT & Operating Model

IN-DEPTH INVESTIGATIONS CAN HELP BANKS PREVENTING FRAUDS ON PUBLIC FUNDS ALLOCATION

The Public funds attract an enormous number of organizations across Europe. Indeed, considering the overall amount of the funds and their relevance as tools for speeding economic growth and innovation, there is an increased attention from institutions and citizens to prevent this specific type of frauds. At EU level, OLAF (the European Anti-Fraud Office), has reported for 2012 and 2013 the opening of more investigations than in the preceding years (431 vs 253). However, also at national level, the fight against this type of frauds is progressing. In Italy, for example, a very recent investigation ended in April 2014 and conducted by the Prosecutor's Office and the Finance Police of Palermo, has led to 17 individuals being arrested for taking unlawful public grants worth more than 15 million Euros (financed by the European Social Fund, ESF).

An important Italian bank has engaged Be for an in-depth investigation of public funds fraud detection and prevention. Fraud against public funds actually may impact not only the public body itself but also other relevant organizations – mainly banks and other economic operators – who act as “outsourcers” of public funding provisioning services on behalf of Italian public bodies (e.g. the MISE, Ministry for Economic Development and the MIUR, Ministry for Research and Education). “Outsourcers” might appointed by the public bodies to oversee and/or coordinate a number of activities, e.g. the development and maintenance of the web portal to support the proposal submission and evaluation process, project evaluation, review and activity progress monitoring, the payment and monitoring of all economical aspects of the project (including on-site visits and audits).



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Main objective of the project was the assessment of the bank's processes, practices and tools (including IT systems) in terms of appropriateness for the detection and prevention of frauds events. The final output has been the identification of action items to improve the current processes, and specifically to develop tools enabling the early detection of frauds and reduce their potential impact. The overall project approach has been organized into two main phases:

1. during the first phase, risk factors within the bank have been identified, and related loss events and potential operational risks have been detailed;
2. during the second phase, the work has been focused onto the design and definition of actions in order to provide the Bank with an operational support for the discovery, early warning and prevention of fraud events.

Project phases, methodology and deliverables

In this project, Be carried out an in-depth analysis of the bank services and activities in the light of the potential happening of fraud and irregularities on public funds. The main goal of the project was to identify potential gaps in the bank's processes and practices that could lead to frauds, and the design of appropriate detection tools in order to reduce fraud events and/or enable an early warning. To reach this goal Be has designed an ad hoc methodology for the definition of prevention tools and – whenever possible – of countermeasures that could strengthen the organizational and business structure against that occurrence of frauds. During the final phase of the project, we tailored an “ad hoc” tool (mainly in the form of KPI) to support the Risk Management in the discovery, early warning and prevention of fraud events.

Analysis model for risk factor, loss events and loss impact

The project started with an in depth assessment on a large sample of funding programs and the related “fraud prevention process” with a specific focus on the adequateness of internal controls and the presence of specific vulnerabilities that might favour frauds. Each risk factor was evaluated and associated with specific loss events, and related loss impact: loss events and related loss impact have been identified and characterized on the basis of the bank business activities, organizational framework, former fraud events, and other aspects which were considered as relevant.

The analysis was conducted through extensive evaluation of the available documentation on national funds provisioning. A number of follow-up interviews with the key stakeholders (e.g. responsible for overseeing grant beneficiaries and/or responsible for grant project administration) were conducted as well, in order to tune and contextualize the arriving from the documentation.



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The investigation also included the analysis of specific case studies (selected in agreement with the Internal Audit itself) in order to realize a comprehensive investigation of activities that are/will be crucial for the business in the future.

In parallel, best practices (from other similar Italian and/or EU institutions or programs) were selected in order to define recommendations, guidelines and practical countermeasures to proactively prevent fraud throughout the overall grants lifecycle. Common fraud schemes (by entity and program type) have been also identified and characterized using scenario/event based descriptions.

The analysis also contributed to the definition of “red flags” and alerts for decision makers/operators in the case of fraud occurrence and the development of action items (short and long term) also including “quick wins” to improve fraud monitoring and detection, and start up the actual implementation of fraud prevention and detection techniques.