

## DG INFSO's anti-fraud measures

This note<sup>1</sup> presents an inventory of specific measures in place in DG INFSO in order to prevent, detect and handle potential cases of fraud. It is important to note that these measures by no means aim at replacing those deployed by OLAF, which is the Union's main instrument in the fight against fraud. On the contrary, they aim at complementing them in order to increase the effectiveness of both DG INFSO's audit strategy and OLAF's investigations.

Indeed, DG INFSO's administrative follow-up of audit findings is now frequently organised in parallel with OLAF's investigations, rather than subsequent to it. By acting as soon as there is enough evidence of irregularities, DG INFSO is able to minimise the financial impact of the potentially fraudulent behaviour. However, these measures put additional strain on the horizontal and operational services responsible for fraud case-handling. For example, administrative measures such as project termination are now launched as soon as the case is uncovered, which may lead to an increase in the number of legal challenges.

The specific measures put in place in DG INFSO to adequately cope with potential fraud cases are presented below grouped in four categories (see Table 1):

1. Fraud prevention: measures implemented before the signature of the grant agreement or procurement contract.
2. Fraud detection: measures implemented during the life of the grant agreement or procurement contract or after.
3. Fraud case-handling: measures implemented once a potential fraud case has been detected.
4. General measures: overarching measures aiming at systematically reinforcing DG INFSO's anti-fraud measures.

The implementation of these measures requires the involvement of several units. Measures concerning fraud prevention and detection fall mainly under the responsibility of unit INFSO.02. Measures concerning administrative follow-up of fraud cases fall mainly under the responsibility of units R2, S4, the OS/AFU and the operational units. In terms of resources, apart from the 26 FTE of unit INFSO.02, it is estimated that at least additional 14 FTE in INFSO.C5, R2, R3, S4, the OS/AFU and the operational units are currently devoted to the implementation of these measures.

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<sup>1</sup> This note complements DG INFSO's Anti-Fraud Strategy, which was elaborated in 2009.

**Table 1 List of measures**

<b>Fraud prevention</b>	<b>Fraud detection</b>	<b>Fraud-case handling</b>	<b>General measures</b>
1.1 Raise awareness of Commission's staff	2.1 FP6 and FP7 Audit Strategy	3.1 Early Warning System	4.1 Regular meetings with OLAF
1.2 Risk assessment on sensitive functions	2.2 Legal check of audit reports	3.2 Insolvency follow-up	4.2 Sharing of best practices
1.3 Communication and dissuasive effects	2.3 Data-mining	3.3 Suspension of payments	4.3 Ad-hoc working groups
1.4 Detection of anomalies in proposals	2.4 Indexing of documents	3.4 Recovery orders	4.4 Meetings with Legal Service and DG BUDG
1.5 Screening of consortia/ beneficiaries/ contractors in new calls	2.5 Pre-assessment of fraud suspicion is done in cooperation with OLAF	3.5 Liquidated damages	
1.6 Negotiation guidelines	2.6 Cooperation with OLAF during investigations	3.6 Termination of participation of individual beneficiary	
1.7 Detection of plagiarism in project proposals	2.7 Technical cooperation with OLAF's Operational Intelligence Unit	3.7 Grant agreement termination	
	2.8 The follow-up of OLAF final cases has been formalised, by treating these administratively in a similar way as audit reports.	3.8 Enhancements to IT tools for audit management and implementation	
	2.9 Detection of anomalies in projects	3.9 Desk audits	
	2.10 Detection of plagiarism in deliverables	3.10 Redress procedure	
	2.11 Project review	3.11 Pre-litigation and Court cases	
		3.12 Exclusion from future grants	
		3.13 Regulatory administrative/financial penalties on the basis of the FR	
		3.14 Carrying out additional audits to uncover to whole case.	

## **Comprehensive list of measures: detailed description**

### **1. Fraud prevention**

#### **1.1 Raise awareness of Commission's staff**

The 2008 Commission-wide "ethics" campaign and both the IAS' and DG INFSO's own IAC audits on "ethics" have been taken as an opportunity (context and occasion) for discussing and further nurturing DG INFSO's "anti-fraud" sense of values. Actions included e.g. setting up an INFSO contact point for collecting fraud suspicions, a strong awareness raising of senior/middle management, a DG-tailored ethics & values info-campaign, a specific 'culture change' campaign action stressing that signalling indications is a positive contribution, coaching of junior staff by experienced senior staff in order to detect inappropriate behaviour (e.g. conflict of interest, inappropriate lobbying, etc).

Service involved: R1.

#### **1.2 Risk assessment on sensitive functions**

A risk assessment carried out twice-annually in the context of DG INFSO's policy on sensitive functions and their mitigating measures contributes to a better understanding of INFSO's residual internal risks in terms of vulnerability to fraud related to finances and/or sensitive information.

Services involved: R1 and S2.

#### **1.3 Communication and dissuasive effects**

Inter alia via the Cordis-website, the strengthened audit strategy has been explained - including the higher likelihood for beneficiaries of being audited and the reinforcement of the risk-based pillar of the audit strategy. Such communication, plus the news on the results from anti-fraud campaigns, may contribute to a dissuasive effect among some beneficiaries.

Services involved: S4 and S2.

#### **1.4 Detection of anomalies in proposals**

#### **1.5 Screening of consortia, beneficiaries and contractors in new calls**

This measure consists in the systematic screening of consortia in new calls, based on information available from risk-based auditing and on plausibility checks on contractors.

Service involved: 02 (1/24 FTE).

### **1.6 Negotiation guidelines**

Negotiation guidelines have been established to help PO's to handle exceptions and anomalies at project evaluation and negotiation stage. Emphasis is put on documenting potential problem cases and examine in depth where needed the operational capacity.

Services involved: 02 and C5.

### **1.7 Detection of plagiarism in project proposals.**

## **2 Fraud detection (during and after project/contract)**

### **2.1 FP6 and FP7 Audit Strategy**

With the introduction of the common FP6 Audit Strategy, fraud detection controls have already been further strengthened (e.g. increased number of random and risk-based audits on-the-spot and related external communication which have a dissuasive/preventive effect). This will be continued under the FP7 audit strategy which explicitly mentions the risk-based audits as a fundamental element of the detective and corrective part of the strategy. Moreover, in line with international standards on auditing, the auditors' working methods have been adjusted (risk-based selection, broad scope for contracts to be audited, professional scepticism, ISA 240 on the Auditor's Responsibility to Consider Fraud in an Audit of Financial Statements). In addition, the financial audit team has been complemented with technical staff to have an 'all-encompassing' audit approach.

Service involved: 02 (13 FTE or 50% of the capacity of 02).

### **2.2 Legal check of audit reports**

Draft and final audit reports and related correspondence with auditees are systematically checked in case of irregularities

Service involved: S4 (½ FTE).

### **2.3 Data-mining**

In the context of ex-post controls, newly available data-mining databases and tools for intelligence building & audit pre-investigations (e.g. iBase, COFACE, etc) have already been integrated into the 'standard' detective control tools for unit 02 (both for risk-based auditing and as part of the preparation of batch audits).

Service involved: 02 (1/12 FTE).

#### **2.4 Indexing of documents**

All the information available in DG INFSO's contractual and project management systems (contracts, correspondence, deliverables, projects documentation, experts, etc.) has been extracted into a format that allows easy consultation according to any search criterion. Based on this experience, new tools are being developed to allow direct access to such information also for project managers.

Service involved: 02.

#### **2.5 Pre-assessment of fraud suspicion is done in cooperation with OLAF**

#### **2.6 Cooperation with OLAF during investigations**

#### **2.7 Technical cooperation with OLAF's Operational Intelligence Unit**

#### **2.8 The follow-up of OLAF final cases has been formalised, by treating these administratively in a similar way as audit reports**

## **2.9 Detection of anomalies in projects**

### **2.10 Detection of plagiarism in deliverables.**

### **2.11 Project review**

A working group will elaborate measures to strengthen the ex-ante controls in the DG's project review procedures.

Services involved: 02, C5, R3 and S4 (1/12 FTE).

## **3 Fraud-case handling (once fraud detected)**

### **3.1 Early Warning System**

EWS flags are set immediately after the detection of irregularities. The level of EWS depends on the source of the information (EWS 1 or EWS 2). During 2009, 67 requests for EWS flagging linked to potential fraud cases were processed in R2 representing approximately 65% of the total number of EWS applications. This led to an increase of more than 6 times in the total number of EWS requests compared to 2008.

It has to be noted that because EWS 1 and 2 categories are automatically deactivated after 6 months, each flagging requires monitoring and prompt action to prolong its duration.

In addition to the normal management of applications, recent cases have proved the need to enlarge the scope of EWS to accommodate these particular needs. However, this would require the modification of EWS Decision and possibly of the Financial Regulation. Further research work is needed to clearly define special requirements derived from fraud cases and to follow-up the matter with BUDG and the Legal Service.

Services involved: 02, S4 (1/12 FTE) and R2 (1/3 FTE).

### **3.2 Insolvency follow-up**

The responsibilities of the different services have been further clarified. Timeliness in addressing insolvency cases is of the essence, given the risk of non-recovery. Correspondence with administrators/liquidators is centralised in unit R2 so as to ensure a coordinated action of all operational units concerned. The process is coordinated from the moment the insolvency case has been identified until the issue of debit notes.

Services involved: R2 (1/2 FTE), S4 (1/4 FTE), AFUs and operational units.

### **3.3 Suspension of payments**

Payments to organisations under suspicion of fraud are suspended. Templates for payment suspension have been established.

Services involved: Operational units.

### **3.4 Recovery orders**

Recovery orders are encoded in ABAC manually to allow additional checks performed by R2. When more than one Directorate involved, dispatch of prior information letters and debit notes is coordinated centrally at R2 level to ensure that a common and coherent approach is maintained throughout the DG.

Several workflows to follow / control the various business processes involved in a recovery order (pre-information letter, debit note, follow-up...) have been developed. Work is still ongoing for the follow-up and to implement triggering of the workflows in different contexts.

Services involved: R2 (2/3 FTE), R3 (½ FTE in 2009) and operational units.

### **3.5 Liquidated damages**

An electronic workflow supports the processing of liquidated damages resulting from the implementation of FP7 ex-post audits. The workflow ensures that no errors of omission take place, keeps track of the status of ongoing liquidated damages flows and calculates liquidated damages.

Services involved: R2 (¼ FTE), R3 (1/6 FTE in 2009), S4 (1/12 FTE) and operational units.

### **3.6 Termination of participation of individual beneficiary**

All project participations of an organisation having committed irregularities are systematically terminated. This may include the re-negotiation of the project reducing the Community funding.

Services involved: R2 (1/3 FTE), S4 (1/2 FTE) and operational units.

### **3.7 Grant agreement termination**

Given that the incidence of termination is expected to increase, it is felt necessary to strengthen guidance and coordination in this area. An analysis of possible options is underway, which considers the benefits of centralising procedural aspects of the termination process.



Services involved: R2 (¼ FTE), S4 (1/12) and operational units.

### **3.8 Enhancements to IT tools for audit management and implementation**

New tools to better manage ongoing audits are being developed. In particular, to the audit implementation workflow is being enhanced to better control the implementation process (this goes beyond the necessary adaptations to support new framework programs FP7/CIP).

Services involved: R3 (2/3 FTE in 2009) and 02.

### **3.9 Desk audits**

A working group was set up to address possible action to reinforce controls over fraud prevention in the payment process. Desk audits were considered a potential tool to complement ex-ante controls in case of suspicion.

Services involved: 02, S4 (1/12 FTE) and operational units.

### **3.10 Redress procedure**

This involves handling of requests for redress to termination.

Services involved: S4 (1/6 FTE) and operational units.

### **3.11 Pre-litigation and Court cases**

This involves providing input to the Legal Service.

Services involved: S4 (1/3 FTE) and 02.

### **3.12 Exclusion from future grants**

This involves: Contradictory procedure with beneficiary, consultation of DG BUDG and LS, exclusion decision and Commission decision on duration of exclusion

Services involved: S4 (1/3 FTE).

### **3.13 Regulatory administrative/financial penalties on the basis of the FR**

This involves the establishment of guidelines.

Services involved: S4 (1/6 FTE).

### **3.14 Carrying out additional audits to uncover to whole case**

## **4 General measures**

### **4.1 Regular meetings with OLAF**

These regular meetings take place to assess the state of play of the open cases. In addition, ad hoc meetings between auditors and investigators are organised as often as needed.

Service involved: 02.

### **4.2 Sharing of best practices**

OLAF recommended DG INFSO to share these measures among all Research DGs. In fact, beyond the efforts to increase awareness and strengthen the anti-fraud vigilance inside DG INFSO, dissemination and information sessions by unit INFSO.02 on lessons learnt have already been organised for other DGs – contributing to an overall improved anti-fraud culture in the Commission. In this context, an inter-service working group on fraud issues has been established the PLUTO application is going to be used by DG RTD and regular exchanges of relevant information and practices exist within the Research family.

Best practices are also shared via DG BUDG and SG.

Services involved: 02 (1/12 FTE).

### **4.3 Ad-hoc working groups**

Ad-hoc working groups are set up to ensure an efficient and appropriate follow-up of administrative measures to be taken rapidly in case of irregularities.

Services involved: 02, R2, S4, AFUs.

### **4.4 Meetings with Legal Service and DG BUDG**

These meetings take place to inform and consult the horizontal services on the follow-up of fraud cases.

Services involved: S4 (1/12), R2, 02