

How to respond to the discovery of possible fraud

Organizations should have the capacity and will to investigate, prove and sanction fraud and corruption in order to deter further misconduct. This is also required by many funders.

The basic follow up steps to the detection of possible fraud are:

- Report the findings to funders, as and when required
- Conduct an internal investigation. This typically would begin with a preliminary inquiry to determine whether fraud is in fact present, and if so, its extent.

For example, if an allegation is received that a contract was improperly steered to a certain contractor in exchange for kickbacks, examine the bidding documents and look for evidence to support the allegation or other indicators of bid rigging and kickbacks. (See more information on how to conduct a preliminary inquiry and follow up steps, below.)

- If such indicators or evidence is discovered, continue the internal investigation to completion, or outsource the investigation to qualified experts. See recommended investigative steps, below.
- If no indicators or evidence is found, record the allegation and close the case; be prepared to reopen the case if further allegations or evidence is received.

Conducting a full internal investigation requires special expertise and resources and is not recommended if the case is complex or involves sensitive issues. In such circumstances, the cases should be outsourced to a qualified group, referred to law enforcement or to the funding agency, as appropriate.

In addition to the steps outlined above, examine and tighten the relevant controls and procedures to attempt to prevent a recurrence.

ACTUAL EXAMPLE OF HOW **NOT** TO INVESTIGATE AN ALLEGATION OF FRAUD

An organization received a complaint that one of its employees was asking for kickbacks in exchange for big contracts. It investigated as follows.

Members of the organization's legal department – without any investigative experience – first asked the company that allegedly paid the kickback if it had done so; the company denied it. The lawyers then asked the suspect employee if he had demanded a kickback; he denied it. They closed the case – what else could they do?

In another case an organization took the additional step to examine the employee's business email – and found nothing incriminating. They promptly closed the case, convinced that the allegation must have been false. It was not.

1. From [IACRC GUIDE on Combating Corruption and Fraud in Development Projects](#):

See detailed information on how to conduct an investigation, including preliminary inquiry steps, of the following common fraud schemes:

[Corruption schemes](#)

Bribes and kickbacks, conflicts of Interest

[Bid rigging schemes](#)

Improperly steering contracts to certain bidders, often in exchange for kickbacks

[Collusive bidding by contractors](#)

Schemes by bidders to agree to divide contracts and raise prices

[Fraud schemes](#)

e.g., phantom vendors, fictitious invoices, false statements, product substitution, defective goods and services

[The basic investigative steps in a complex case](#) The 10 basic steps in a complex investigation.

2. Articles on investigating allegations of fraud

“Kangaroo court: Why do NGOs need to get fraud investigation right?”

Some common errors to avoid in conducting investigations

<https://secondmarshmallow.org/2016/04/21/kangaroo-court/>