



# Safeguarding COVID-19 Social Benefit Programmes from Fraud and Error

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Through social benefit programmes (SBP), governments protect individuals and families from economic and social risks, and provide a safety net for households and businesses. SBPs include all government programmes that make available some kind of entitlement, whether it be a service, product or financial allowance. Examples of benefits include pensions, food vouchers, unemployment benefits and tax credits. For many, these programmes are a vital lifeline. Yet fraud is undermining the integrity of these programmes and governments' ability to deliver and manage benefits during the COVID-19 crisis. As governments are witnessing an increase in cases of fraud in SBPs, maintaining the effectiveness and accountability of these programmes is more vital than ever. If left unchecked, such cases of fraud can deprive beneficiaries of essential support and services at a time when they need them most. This note considers how governments can safeguard SBPs from fraud and error in both the short and long term to ensure that entitlements are reaching beneficiaries as the effects of the COVID-19 crisis continue to be felt.

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A key element of economic stimulus packages is social benefit programmes (SBPs)<sup>1</sup>. Effectively delivering SBPs is critical to ensure that individuals affected by the COVID-19 crisis receive vital support, such as sickness benefits, temporary compensation for reduced working hours, unemployment insurance and social assistance. A number of governments have increased support to households and businesses, for example by extending sickness benefits to quarantined or self-quarantined workers and by providing partial unemployment benefits to workers whose hours have been cut due to a sharp decrease in demand (OECD, 2020<sup>[1]</sup>). Indeed, millions of people around the world are unable to work. In the United States, more than 44 million individuals have filed for unemployment benefits since the beginning of the COVID-19 crisis (as of 11 June 2020) (Tappe and Luhby, 2020<sup>[2]</sup>). Governments are working together to do their best and cushion the negative impact of the crisis. In France, the government has passed a decree to ensure that workers who are temporarily unemployed as a result of the COVID-19 crisis can receive up to 84% of their net salary (Service Public - République française, 2020<sup>[3]</sup>). In Australia, three economic stimulus packages have been introduced at the Commonwealth level that include measures to subsidise wages, provide cash flow support to businesses, and offer income support to households (International Monetary Fund, 2020<sup>[4]</sup>). The European Commission has proposed a EUR 750 billion recovery instrument, Next Generation EU, which will prioritise the actions needed to propel Europe's recovery and resilience in the aftermath of the crisis (European Commission, 2020<sup>[5]</sup>). In the United States, a bipartisan USD 2 trillion economic relief plan will offer assistance to tens of millions of households and includes expanded unemployment coverage.

Understandably, the main focus for governments at this time is to support individuals and businesses without creating burdensome procedures, or worse yet, introducing measures that prevent beneficiaries from accessing SBPs altogether. For many governments, ensuring that SBPs continue to operate effectively and efficiently is of primary concern, while managing the risks of fraud and error, including both underpayments and overpayments. Individuals and government officials may make mistakes in the application process or when submitting or processing information, particularly if programmes are new or have been scaled up quickly. Such cases are defined as error and are not fraudulent (van Stolk and Tesliuc, 2010<sup>[6]</sup>). There can therefore be a trade-off between “exclusion errors” (preventing intended recipients from receiving support) and “inclusion errors” (preventing unintended receipt, whether by accident or as a result of fraud). During emergency situations, governments can adopt a higher risk tolerance for the latter, given that their priority is to disburse payments and ensure the delivery of vital programmes.

While mistakes are often due to error, evidence shows that during or following a crisis (for example natural disasters, humanitarian crises or public health crises), there is a heightened risk of fraud as skilful perpetrators seize the opportunity to exploit emergency funds and schemes (ACFE, n.d.<sup>[7]</sup>) (U.S. Department of Justice, n.d.<sup>[8]</sup>) (Skogen, 2017<sup>[9]</sup>). The COVID-19 crisis is no exception. As governments and line ministries adjust their controls and mitigation measures to meet immediate demand in light of the COVID-19 crisis, the integrity of SBPs may be impacted in the short term. Indeed, governments and international organisations have already seen a sharp rise in complaints and reports of fraud since the beginning of the COVID-19 crisis (Europol, 2020<sup>[10]</sup>) (U.S. Department of Justice, 2020<sup>[11]</sup>) (Pratt, 2020<sup>[12]</sup>). Common schemes include:

- Providing false or misleading information, often with stolen identities, to obtain access to benefits;
- Phishing scams carried out by perpetrators who create fake websites to steal data of companies that are eligible for emergency funds; and
- Establishing fake companies to apply for benefits under government grants for businesses (O’Shea, 2020<sup>[13]</sup>) (INTERPOL, 2020<sup>[14]</sup>).

<sup>1</sup>The term “social benefit programmes” refers to all government programmes that make available some kind of entitlement to individuals, households or businesses, whether it be a service, product or financial allowance. Examples of benefits include, but are not limited to, cash transfers (e.g. pensions, unemployment benefits and food vouchers), tax credits, subsidised or free housing, and subsidies and rebates for medical goods and services.



In particular, countries are facing a number of fraud threats related to grants and schemes intended to support businesses and employees during the COVID-19 crisis. In New Zealand, for example, employers who were not entitled to a government coronavirus wage subsidy scheme have paid back NZD 17 million after fraud investigators at the Ministry of Social Development detected that the companies were failing to pass on money to employees (Ainge Roy, 2020<sup>[15]</sup>). This means that a significant amount of the funds that have been earmarked to help struggling businesses and their employees could either be delayed in reaching those who are entitled to it, or be lost to fraud. Schemes designed to defraud SBPs during the COVID-19 crisis have been identified in many countries, including Canada, Ireland and Germany, as well as others (Begley, 2020<sup>[16]</sup>) (Cullen and Everson, 2020<sup>[17]</sup>) (Matthews, 2020<sup>[18]</sup>).

To safeguard the integrity of emergency funds and ensure accountability of SBPs, internal control and risk management functions can play a critical role in ensuring that government funds serve their intended purpose. In the context of SBP and fraud, risk management is a critical pillar of prevention. For instance, risk assessments consisting of qualitative and quantitative methodologies can help identify the effect and likelihood of risks, and then prioritise ways to spend resources on to address control weaknesses before fraud occurs. Moreover, risk assessments can help managers to decide not only when to act, but when controls are sufficient for reducing risks relative to pre-determined criteria. These criteria can include factors that are relevant for service delivery, such as the amount of time it takes to process a registration (i.e. the investment in controls) versus the likelihood and effect of a fraud risk occurring.

In addition, specific government-wide guidance can also support line ministries responsible for SBPs to identify and address fraud risks where possible. For instance, in the United Kingdom, the Government Counter Fraud Function published new guidance for leaders and fraud experts in government bodies and local authorities that are administering emergency programmes. The guidance contains examples of imminent fraud threats and detailed principles for effective fraud control in emergency management, including how to implement low-burden, anti-fraud controls (Government of United Kingdom, 2020<sup>[19]</sup>). In a number of other countries, government bodies are issuing advice and guidance for individuals and businesses to help safeguard relief funds from fraudulent schemes, including Canada, the United States and France (Tasker, 2020<sup>[20]</sup>) (Kreidler, 2020<sup>[21]</sup>) (ICAEW, 2020<sup>[22]</sup>) (AFP/Le Figaro, 2020<sup>[23]</sup>).

Internal and external audit functions within governments also play a vital role in safeguarding integrity in SBPs. Although certain control measures may be too cumbersome to implement and adapt during an emergency situation such as the COVID-19 crisis, internal and external audit bodies can provide assurance to maintain accountability in SBPs throughout the duration of the crisis. For example, internal audit functions can help identify fraud risk factors by employing analytical techniques such as data mining or data matching to highlight control weaknesses and trends that may suggest fraudulent activity or abuse in SBPs. Internal audit functions are well-placed to identify common characteristics of fraud schemes and evaluate the effectiveness of controls to prevent or detect fraud, recommending further action where necessary. Regarding *ex post* evaluation, internal audit and supreme audit institutions (SAI) can verify whether funds were disbursed properly during the immediate crisis, providing verification and assurance to recover fraudulent claims where possible. Such activities help ensure that funds obtained fraudulently can be allocated properly in the aftermath of the COVID-19 crisis, and strengthen public trust in governments' management of the crisis (ICAEW, 2020<sup>[22]</sup>). Boxes 1 and 2 provide insights on measures that governments can adopt to mitigate risks of fraud in SBPs in the short and long-term management of the COVID-19 crisis.



## Short-term measures to safeguard integrity of COVID-19 Social Benefit Programmes

When developing responses to the COVID-19 crisis, immediate measures that can be applied to safeguard the integrity of support programmes and relief funds include:

- Using existing systems and controls, such as linking eligibility criteria for other public services, to reach those who need support as a result of the pandemic and help reduce delays in delivery of services or relief payments. This approach can help line ministries act promptly in emergency response situations, while retaining some anti-fraud control measures that do not unduly strain resources.
- Ensuring that experienced fraud personnel are embedded in the design and implementation of emergency relief provisions to undertake fraud risk assessments: Experienced fraud personnel can help identify and communicate which fraud schemes and trends are most prevalent. This is evidenced in the example from New Zealand, where fraud investigators have been monitoring the rollout of the government's wage subsidy scheme.
- Assessing and communicating well-defined risk tolerances for specific activities or areas of operations: this helps to ensure that any relaxing or adapting of controls is not ad hoc, but based on predetermined criteria and shared judgement.
- Ensuring staff are aware of fraud and have appropriate reporting channels in place: making channels available for staff and the larger public to report suspicions of fraud is a vital control measure to mitigate risks of fraud and waste.

When governments are bypassing standard procedures and introducing measures in a compressed timeframe, agencies simply may not have the time or resources to carry out due diligence as they usually would. To detect fraudulent claims or activity, and to distinguish fraud from error, data analytics techniques can be applied to incoming data and applications: forthcoming OECD research shows that claimant registration and renewal are areas that are specifically at risk of fraud; as such, control measures should be targeted at these stages of the process where possible (OECD, Forthcoming<sup>[24]</sup>).



## Long-term measures to ensure controls are fit-for-purpose to prevent and detect fraud in COVID-19 Social Benefit Programmes

With the prospect of a global recession looming, the transition from the immediate delivery of benefits into the provision of long-term services requires particular attention to reduce fraud risks. Governments will dedicate large sums to these services, increasing systematic investment in social benefit programmes that many citizens will depend on.

As line ministries shift towards longer-term welfare provisions, governments could consider the following anti-fraud measures and processes:

- Revise existing fraud prevention strategies and policies in anticipation of the increased number of recipients that their programmes will accommodate and as a result the increased threat that experienced fraudsters may target vulnerable individuals and businesses. As part of this process, line ministries should undertake a comprehensive analysis to determine cost-effective anti-fraud controls.
- Seek to increase data analytics capabilities and systems to make sure that automated systems effectively identify fraudulent patterns and actors.
- Undertake historical analyses to identify fraudulent practices during the immediate COVID-19 crisis.



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