OFFICE OF THE INSPECTOR GENERAL
Audit of FAO Cash Transfers (AUD1022)

EXECUTIVE SUMMARY

The Office of the Inspector General (OIG) conducted an audit of FAO cash transfers between May and October 2021. The objective of the audit was to assess the adequacy and effectiveness of governance, risk management and control processes to facilitate the effective implementation of cash transfer projects and address potential risks, including fraud risks.

FAO’s cash transfers are governed by Manual Section 702, which came into effect in May 2019 and is owned by Deputy Director-General (Bechdol), with the support of the Project Support Division (PSS). The Office of Emergencies and Resilience (OER) provides guidance and support to Decentralized Offices on cash transfers.

The audit covered the period from January 2019 to December 2020, with emphasis on the operational arrangements in place and expenditure incurred following the issuance of MS 702. Audit observations made in this report were updated at reporting stage to reflect corporate procedures and guidance in place as of July 2022. The audit included a desk review of operations in four countries (Somalia, Yemen, Myanmar and Nigeria). Field visits could not be undertaken due to the COVID-19 pandemic.

Main audit observations

The audit identified many positive practices, including the issuance of MS 702, which closed a significant policy gap in the governance and implementation of cash transfers. The requirement for cash transfer projects to undergo feasibility clearance by OER ensured that headquarters had adequate visibility and provided its contribution prior to the approval of each project. MS 702 also introduced a new type of purchase order that has improved budgeting and accounting for cash transfer projects. MS 702 also defined roles and accountabilities in the implementation of cash transfer projects both at Decentralized Office and headquarters levels. Finally, PSS and OER had developed a range of guidance materials and provided ample support to Decentralized Offices to increase the effectiveness of cash transfer operations.

The main weaknesses identified by the audit relate to: (i) the lack of a corporate beneficiary information management system; (ii) insufficient protection of beneficiary data; (iii) roles and responsibilities not always well defined at Decentralized Office level; (iv) weaknesses in the selection of beneficiaries and documentation of eligibility criteria; (v) weaknesses in beneficiary registration and data quality; and (vi) weaknesses in the identification of beneficiaries at distribution points and post-distribution validation activities.

Decentralized Offices execute some cash transfer projects in difficult contexts where there are significant implementation challenges, including security and access problems. This aggravates the already significant risks related to the effective identification of beneficiaries, due to the lack of effective biometric technology and overreliance on mobile phones for validation activities. PSS and OER stated that these risks are common to all implementing modalities (e.g. in-kind assistance) and additional risk mitigation activities could in many circumstances result in efficiency losses.

OIG acknowledges that most of the control weaknesses identified in the audit relate to beneficiary data management aspects which are equally applicable to other modalities. In this regard, PSS and OER added that MS 702 already establishes standards for cash transfer operations which are more stringent than for other modalities. They felt that further elevating the standards for cash transfer projects alone would create a significant gap between modalities with a comparable risk profile, which could act as a disincentive to design and
implement cash transfer operations. PSS and OER therefore opined that it would be advisable to harmonize, to the extent possible, the standards applied to all implementing modalities.

OIG agrees with PSS and OER on this aspect, but notes that a major obstacle to address the existing issues across all implementing modalities has been the lack of a corporate-level policy owner for beneficiary data management in FAO as a whole. With the recent publication of FAO's Data Protection Policy, which foresees the establishment of a Data Protection Oversight Committee and a Data Protection Unit, OIG expects that this important gap will be filled once these entities become operational.

The following summarizes the six main audit observations:

Corporate beneficiary information management system: FAO does not have a corporate system for beneficiary information management, whether for cash transfers or any other modality of assistance. Decentralized Offices sometimes use tools that do not meet the minimum access and data protection controls required by MS 702, such as unsecured Excel files. As these tools were developed by each country office separately, this has sometimes led to inefficiencies or failure to adopt best practice. PSS and OER acknowledged the desirability of a corporate Beneficiary Information Management System. In the meantime and with limited extra-budgetary resources available, PSS and OER, in close collaboration with the Digitalization and Informatics Division (CSI), are now developing and deploying a system called IDEA (Identification, Delivery, Empowerment Application) to Decentralized Offices, with a focus on, but not limited to, cash transfers and vouchers. However, imposition of a single system on diverse offices and projects could harm project effectiveness. For this reason, IDEA will be provided as an option to implementing offices, and not as a requirement.

Beneficiary data protection is one of the main challenges of cash transfer operations. MS 702 requires that beneficiaries’ personal data should remain strictly protected and confidential at all times, with controls on access by and transmission to third parties, in compliance with FAO corporate standards and policies. Such standards and policies comprise, in particular, AC 2022/06 (the “Data Protection Policy”) issued in July 2022. At the date of finalizing this audit, AC 2022/06 was in an early stage of implementation without operational guidance being yet available. Prior to the publication of AC 2022/06, PSS and OER considered it prudent to await this policy before strengthening guidance relating to cash transfers in this area, noting that cash transfers are at present the only modality or area of work in FAO with specific data protection guidance and procedures. Consequently, during the period covered by the audit, FAO lacked corporate operational guidance in this area. PSS and OER partially filled this gap by developing guidance, including implementing tools and materials, for Decentralized Offices to manage data protection locally. However, local arrangements do not always ensure adequate management of data protection risks.

Roles and responsibilities: Each Decentralized Office has developed standard operating procedures to govern different processes relating to cash transfer projects. Even if not mandatory, as per MS 702, standard operating procedures can be an effective tool to improve performance and accountability in implementing complex operations such as cash transfers. However, in some cases, standard operating procedures did not include responsibilities for all/some key steps/processes. There were also gaps in standard operating procedures relating to critical processes, and some conflicting roles and responsibilities. To address this, PSS and OER agreed to include an “Operational Manual” approach in MS 702, in line with similar requirements in the forthcoming MS 703 on Beneficiary Grants and MS 704 on Vouchers.

Beneficiary eligibility, selection and validation: Decentralized Offices defined reasonable selection criteria; however, some countries did not store data demonstrating the qualifying criteria for selected beneficiaries. Verifications of beneficiary data were predominantly conducted via phone calls, which limited them to beneficiaries with mobile phones and was hindered by network issues. This may have provided an opportunity for the inclusion of ineligible beneficiaries in distribution lists through error or fraud. PSS and OER noted that,
beyond phone verification, many offices use third-party monitors to verify beneficiary data. They also indicated that in several contexts alternative verification methods are not feasible, too expensive and/or time-consuming, and it would be unacceptable to exclude from FAO’s support beneficiaries without access to a mobile phone. They further reiterated that cash transfers are currently the only modality in FAO applying any controls relating to beneficiary eligibility, selection and validation. Notwithstanding this, OER and PSS agreed to develop additional guidance for eligibility verification and documentation.

**Beneficiary registration and data quality:** FAO contracted implementing partners to carry out registration of beneficiaries. The Decentralized Offices reviewed by OIG allowed registration of multiple types of identification documents (ID), which made it difficult to identify anomalies in the recorded ID numbers and increased the possibility of having duplicate and ghost beneficiaries. PSS and OER acknowledged that this is a residual risk in some contexts, given the low coverage and availability of official identification documents but that de-duplication and data cleaning processes could still be effective in detecting ineligible beneficiary entries, even when multiple ID types were permitted. Nevertheless, OIG noted several data quality issues in the beneficiary lists, which in some cases prevented from conducting meaningful analysis to identify duplications.

**Beneficiary identification and verification at distributions:** Use of unreliable means of beneficiary identification and a lack of FAO presence at distributions in some cases (usually due to security/access issues) may provide an opportunity for diversion of funds. Verification of cash transfer disbursement was usually phone-based, with some offices also sometimes using third-party monitors. The beneficiary verifications, therefore, were subject to the same limitations as described above for beneficiary eligibility verifications.

**Conclusions**

In summary, OIG is of the opinion that the governance arrangements, procedures and controls developed specifically for cash transfer projects in FAO (i.e. MS 702 and its associated guidance and tools) **Need Some Improvement** to facilitate their effective implementation and reduce the risk of fraud.

However, overall controls over cash transfer projects are negatively impacted by weaknesses in broader corporate policies relating to beneficiary data management and protection. In line with the conclusions of OIG’s audit report from 2018 on FAO’s Data Protection and Privacy Management (AUD 1618), this is an area still in need of major improvement, as highlighted by the current audit, especially as 10 agreed actions from that report remain outstanding.

**Agreed actions**

This report includes eight agreed actions, including four with high priority, that management has agreed to fully implement by March 2024. OER and PSS noted that implementation of some of the agreed actions will require significant resources to strengthen capacity both at headquarters and Decentralized Office level.

*Mika Tapio*

**Inspector General**

12 September 2022
**ANNEX: DEFINITION OF AUDIT TERMS**

**AUDIT RATINGS**

<table>
<thead>
<tr>
<th>Rating System</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Satisfactory</td>
<td>The assessed controls, governance arrangements, and management of opportunities and risks, are adequate and effective to provide reasonable assurance that objectives are met.</td>
</tr>
<tr>
<td>Some Improvement Needed</td>
<td>A few specific weaknesses in the assessed controls, governance arrangements, and management of opportunities and risks were noted; generally however, they are adequate and effective to provide reasonable assurance that objectives are met.</td>
</tr>
<tr>
<td>Major Improvement Needed</td>
<td>Numerous specific weaknesses in the assessed controls, governance arrangements, and management of opportunities and risks were noted; they are unlikely to provide reasonable assurance that objectives are met.</td>
</tr>
<tr>
<td>Unsatisfactory</td>
<td>The assessed controls, governance arrangements, and management of opportunities and risks, are not adequate or effective to provide reasonable assurance that objectives are met.</td>
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1 FAO’s accountability policy, in an extension of the COSO internal control objectives, establishes five critical areas of performance relevant for assessing the adequacy of controls – effectiveness, economy and efficiency, compliance, reporting and protection.