

Practice Name: Practice category:



Contact:

Fraud risk checklists of Sicily

- Fraud prevention and detection

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Fraud risk(s) countered

- Conflict of interest
- Avoidance or manipulation of public procurement procedures (bid rigging, bid data leaking)
- Double funding
- Collusion
- Manipulation of project costs
- Others (other fraud risks countered include false declarations, corruption, manipulation of technical specification and supply of ghost services)

Context and objective(s)

The Region of Sicily, as Managing Authority (MA), manages the Regional ERDF Operational Program 2014-2020 of Sicily (<https://www.euroinfosicilia.it/po-fesr-sicilia-2014-2020/programma-operativo/>) worth EUR 4200 million of EU and national resources. In 2019 the Sicilian MA developed a **dedicated set of checklists** to methodically assess a wide range of fraud risks, in accordance with the technical guidelines laid out by the EC in the working document EGESIF_14-0021-00 16/06/2014 (https://ec.europa.eu/regional_policy/sources/docgener/informat/2014/guidance_fraud_risk_assessment.pdf).

The checklists aims to support the monitoring and control units involved in first-level checks (<https://www.euroinfosicilia.it/misure-antifrode-del-po/>) with indicators that directly reflect the European Commission's (EC) audit rules. These lists of indicators represent a **useful operational tool** to systematically integrate assessment methodologies into the MA's verification activities, avoiding inconsistencies and allowing the MA to **single out potential irregularities ahead of time**.

Description of the practice

The fraud checklists developed by the Sicilian MA feature indicators with particular reference to **awarding procedures** and **payment claims**. The checklists include 23 questions on award procedures, and 12 questions regarding payment claims.

The checklist covering **award procedures**, features the following structure:

1) Selection of beneficiaries

- Conflicts of interest
- False declarations on behalf of candidates
- double funding

2) Implementation and control

- Corruption and illicit payments
- Violation of tender procedures
- Manipulation of technical specifications
- Leaking of bid data
- Bid rigging, unbalanced offers and manipulation of offers
- Unjustified single supplier source
- Split purchases
- Improper mix of contracts

By way of example, you can find some questions below related to **selection of beneficiaries in award procedures**:

- Did the selection respect the policy on conflict of interest, including a personnel declaration and measures for guaranteeing that this policy is respected? Did the operator in charge of the contract submit a conflict of interest declaration? Is it presented in a comprehensive manner?
- Have any cases of undeclared conflict of interest and sequential actions been detected?
- Did the screening of project applications include an examination of all supporting documents and self-declarations?
- Were intermediate or temporary declarations checked through public databases (Project Identification Code, Region's beneficiary database, etc.)?

The questions in the checklist on **bid rigging, unbalanced offers and manipulation of offers** include the following:

- Was the winning offer too high with respect to estimated costs, published prices, similar services, average industry prices and correct market prices?
- Were losing bidders used as subcontractors?
- Are there unusual structures in the bids (e.g., offers are divided in exact percentages, the most advantageous offer is just below the threshold of acceptable prices, persistently high prices from all bidders, evident connections between bidders)?

The checklist for **payment claims** features the following sections:

- 1) Incorrect charging of costs
- 2) Incomplete pricing practices
- 3) False, inflated or duplicate invoices
- 4) Supply of ghost services

The following are samples of questions covering fraud risk assessment in payment claims:

- Is the cost of labour/service/supply excessive or unusual?
- Is the cost of labour/service/supply not proportional to the contract's advancement?
- Does the contractor present incomplete or inadequate documentation?
- Do prices appear too high compared to similar contracts, price lists or average industry prices?
- Are there invoiced goods/services which cannot be identified or calculated?
- Is there a receipt for invoiced goods or services?
- Do the invoiced goods correspond to an order? Is the order contestable?
- Concerning invoices: Do prices, article descriptions or amounts conform to the contract?
- Do some invoices feature the same amount, figures, date etc.?
- Is the payment linked to a group of subcontracted companies in a “cascade” system?
- Are any payments made to off-shore companies?

The full content of the Italian original version of the checklists can be downloaded from <https://www.euroinfocilia.it/misure-antifrode-del-po/> by accessing the ZIP file “DDG

n.572/2019”at the bottom of the page and opening the folder “Checklists (October 2019) “ → ”Allegato 2A_Affidamenti Dlgs 50_rev“ and “Allegato 3A_Rimborso_OpBeSe_rev“.

In addition to the checklists, the MA deploys a “fraud risk **self-evaluation tool**”, which is a matrix designed to carry out fraud risk assessment in accordance with the methodology defined by the EC and approved in 2017, together with a **risk assessment self-evaluation Working Group** responsible for the formulation of ad hoc antifraud proposals and mitigating actions (<https://www.euroinfosicilia.it/p-o-fesr-sicilia-20142020-approvazione-dello-strumento-di-autovalutazione-rs-fraud-risk-assessment-acadg-v-01giugno2017-ed-istituzione-del-gruppo-di-lavoro-per-lautovalutazione-del-rischio-fr/>). The Sicilian MA has examined the option to use the ARACHNE data mining system and integrate it to the above-mentioned self-evaluation tool: this would allow better verifications and better consolidation of search results during fraud investigations, thus improving the efficiency and the accuracy of anti-fraud strategies as a whole. Merging these tools would, however, require a significant time investment together with the allocation to the project of an ad hoc team of IT experts.

Unique features

These ad hoc checklists offer a **practical** way to integrate the EC anti-fraud methodological guidelines into the MA’s operations, enabling **more timely and targeted** corrective measures.

What adds to the distinctiveness of this approach is the fact that out of all 20 Italian regions, Sicily is the only one to have formulated a dedicated set of checklists for conducting a thorough assessment of fraud risks in public procurement procedures funded by the EU. Other regions only rely on single “check points” (i.e. individual questions) related to the identification of cases of fraud and irregularity.

Outcomes and results

The systematic use of dedicated checklists for fraud risk assessment, in conjunction with the extension of the ARACHNE user base to all actors involved in various capacities in the implementation and control of operations, will enable audit authorities (AA) to detect in advance those involved in irregularities and promptly identify specific projects at risk of fraud. This holds the potential to reduce fraud risk in public procurement procedures, but also to better identify common fraud patterns and design tailored corrective interventions.

Key success factors

The MA relies on, for instance, the **memorandum of understanding (MoU)** of cooperation signed in November 2011 with the anti-fraud unit of the Italian Financial Police (<http://www.gdf.gov.it/>) to support the controls and exchange of information related to EU funds. The MA provides annually the Italian Financial Police with access to the database of beneficiaries of EU funding for the 2014-2020 programming period; the beneficiaries in the database are organised per single Sicilian province. As a follow-up of the checklists mentioned above, the Sicilian MA promptly reports to the Financial Police “facts and conducts that may constitute tax violations, possible criminal profiles and economic and financial offences to the detriment of public spending and the proper performance of public administrations”. The **Italian Financial Police**, which has both administrative and judiciary policy functions, communicates back to the MA with the results of any further checks on those beneficiaries and if necessary will then inform the AA of the Operational Programme specifying the type of fraud/irregularity, the sums involved, the timing and finally also the possibility to recover the sums from the fraudsters. The Financial Police also formalises and submits reports to the public prosecutor’s office in case of substantiated fraud or irregularities.

Challenges encountered & lessons learned

One of the key challenges to the fruitful adoption and dissemination of anti-fraud practices is the significant **shortage of internal staff** supporting their systemic application. It is therefore central to the success of such strategies to adopt measures to reinforce human resources operating in this area, which is often insufficient. It is equally important to train all public administration entities in the proper application of tools like ARACHNE, fraud checklists and the self-evaluation matrix.

An important precondition for the practice to yield continued positive systemic results is the **strengthening of the administrative capacity** of the MA and Intermediate Bodies (IB). This includes **increasing the general awareness** about the availability of existing tools, **training MA/IB staff** about their correct use and encouraging **coordinated action** between departments and among institutions.

Potential for transferability

The use of thorough checklists to complement existing anti-fraud procedures could be shared with other MAs. The Sicilian MA checklists were shared during a training session for MAs, which took place at DG REGIO's premises in Brussels on the 14th and 15th of January 2020 under Module 6 of the training program foreseen by the framework contract on identifying and preventing frauds in ESI funds. The content of the checklists was translated in English to become part of the material for future executive training.