mercy centre australia

Official Charity in Australia for the
HDF Mercy Centre in Klong Toey Bangkok Thailand
We Stand Together With The Poor

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MCA POLICY GS5F: Fraud Prevention
Per ACNC Governance Standard 5(f) & External Conduct Standard 3

1. Introduction

Mercy Australia (MCA) enables Australians to make tax-deductible donations to benefit poor, orphaned and sick children in Thailand via a contracted third party called the Human Development Foundation (HDF). There may be more contracted third parties in the future so any references in this policy to HDF will also apply to other future contracted third parties.

MCA collects annual sponsorship or one-off donations from Australians and transfers these funds to HDF who in turn use them for shelter, education, food, medicines, clothes, annual scholarships or special projects. MCA provides a 100% guarantee that every dollar of regular child sponsorship money will go directly to the children (the Children of Mercy).

This means that MCA has an obligation to ensure that these donated funds are not misused in any form by fraud, corruption and other financial misconduct.

Fraud prevention is also a legal requirement. Specifically, the ACNC External Conduct Standard 3 requires charities to take reasonable steps to minimize the risk of corruption, fraud, bribery or other financial impropriety by persons working with the charity (including third parties working in collaboration with the charity).

2. Definitions of Fraud

2.1 What is Fraud?

Fraud is a form of dishonesty – where someone acts in a dishonest way so that they receive a benefit and/or someone else experiences a loss, which in MCA's case may mean financial support intended for but not going to one of the sponsored children.

People can commit fraud in a variety of ways, including by:

- Making false representations
- abusing their position
- falsifying records
- failing to disclose information, and
- using other forms of deception.

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Fraud does not necessarily involve large sums of money. Fraud involving small amounts can still result in significant harm, particularly for a small charity with limited resources like MCA.

It is often not just the financial loss that damages MCA; the impact on MCA's reputation and the negative effect on staff, sponsors, volunteers, the ACNC and board can also be profound. In a worst-case scenario, the negative impact on MCA's reputation could result in a reduction or even complete elimination of MCA sponsors, which could destroy MCA and the donation stream to needy children.

2.2 Types of Fraud

There are many different types of fraud, and the methods used are constantly evolving. Generally speaking, fraud and other types of financial crime can be categorized as either:

1. **internal fraud** - committed by someone within or connected to MCA
2. **fraud at the third party** - committed by someone at the beneficiary party, e.g. HDF
3. **external fraud** - committed by someone with no connection to MCA at all.

2.2.1 Examples of Internal Fraud:

- Stealing cash donations
- Misusing charity banking facilities - including credit and debit cards, or internet banking accounts - for personal expenditure
- Claiming non-existent, excessive or inappropriate expenses
- Creating non-existent beneficiaries for the purposes of directing unauthorized payments.

2.2.2 Examples of fraud at the third party:

- Stealing cash donations
- Misusing charity banking facilities - including credit and debit cards, or internet banking accounts - for personal expenditure
- Redirecting funds intended for sponsored children or one-time donations for projects for the purposes of unauthorized payments or personal benefit

2.3.3 Examples of external fraud:

- Using false invoices to obtain money from a charity, such as MCA or HDF
- Committing identity fraud, for example, hijacking a charity's bank account

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- Unauthorized fundraising in a charity's name, such as setting up a fraudulent disaster appeal website or a GoFundMe web page.
- Other forms of cybercrime intended to defraud the charity of funds

3. Financial Controls

MCA has implemented the following minimum financial controls to prevent fraud:

1. All financial transactions must be authorised by at least two (2) directors.
2. The MCA bank account must be connected to a single bank account at HDF.
3. Financial transactions between MCA and HDF are called "transfers" and are managed with specific controls in place.
4. All transfers will have "sending receipt" and a "receiving receipt" which shall be kept as part of the financial records.
5. The sending receipt will be issued in digital form by the MCA bank.
6. The receiving receipt will be issued in digital form by the HDF.
7. Each transfer will be accompanied by a digital "MCA Payment Transfer Reconciliation Sheet" that stipulates in detail how the funds are to be used by HDF.
8. MCA will ensure that HDF validates and certifies the MCA Payment Transfer Reconciliation Sheet as evidence that funds have been allocated to each child (by name and date) as per sheet. HDF will print, sign, scan and email the sheet back to MCA.
9. MCA will ensure that HDF submits receipts and/or other appropriate evidence (i.e. photographs) of completed projects for which MCA funds have been allocated.
10. MCA will ensure that the HDF independent auditor reports are sent to MCA in digital form.
11. MCA will use debit cards issued by its bank for MCA volunteers conducting charitable works in person at HDF.
12. A "MCA Debit Card Bank Account" will be set up that is separate from the MCA main bank account used for transfers for the volunteer visits.
13. The board will approve each visit and the budget for each visit and that budget will be paid into the debit card MCA bank account via two directors.
14. Debit cards will be issued to volunteers authorised by the board in the name of that volunteer so that only that volunteer can use the approved funds in debit card MCA bank account.
15. Volunteers will be authorised to use the debit card for all expenses with preference given to credit card transactions.
16. In instances where only cash can be used, volunteers will use the debit card to withdraw cash at a valid ATM for which a record will appear in the MCA Debit Card Bank Account. The volunteer will be required to submit receipts or a written log (where receipts are not possible) for all cash transactions.
17. Any interest earned in the MCA bank account shall be reinvested into the bank account.

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18. All financial records must be kept for at least seven (7) years.
19. All MCA financial transactions and receipts shall be audited at least once a year by an independent Australian Chartered Accountant.

4. Online Banking and Cyber Security

1. MCA only uses bank accounts with Australia's top four banks.
2. Only two Australian directors are authorised signatories with their own passwords for the MCA bank accounts. Passwords are not shared.
3. Payment limits shall be applied, and dual authorization of payments shall be strictly enforced.
4. MCA policy is NOT to create its own website. The MCA website is provided by www.volusion.com, a top-tier US company offering hosted, secure, trading websites for small to medium sized retail organisations. Their website uses cloud databases secured by firewalls and SSL encrypted payment gateways.
5. Free public Wi-Fi networks shall be avoided as much as possible when accessing MCA systems, especially in hotels and cyber-cafes. The use of a VPN or other forms of encryption to protect sensitive information shall be used instead.
6. Printing hard copies of personal information shall be avoided as much as possible-they make it even easier for criminals to get their hands on other people's personal data

5. Education and awareness

This Policy shall be made available to any Board member and interested party.

6. Fraud Prevention at HDF

It is virtually impossible for MCA to effectively monitor the prevention of fraud at HDF in addition to the MCA financial controls. It must therefore rely on the HDF's own internal policies and programs to ensure that MCA sponsorship funds and donations reach the intended beneficiaries or that donations for particular projects are indeed used for these projects. MCA shall obtain a copy of the third-party fraud prevention policy and have an agreement with the third party that any violations are immediately communicated to MCA.

7. Responsible Person

The Executive Director is responsible for the implementation and monitoring of this Policy.

8. Fraud Detection and Reporting

Banking records and other financial transactions must be reviewed regularly by a designated independent board member and by an independent Australian Chartered Accountant.

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Any fraud or suspected fraud shall be reported immediately to the Executive Director, or to another independent board member.

In the unlikely event of fraud or any other financial misconduct, confirmed after proper investigation, it will be reported immediately to the Board, who then will decide to report the incident to the New South Wales police and the ACNC. The criteria used for this decision will relate to the size and circumstances of the incident. Any incident of fraud, however minor the amount, may be an indication of a more serious issue or weakness in the financial governance system at MCA.

9. Correction and implementation of Learnings

Any incident of fraud or other financial misconduct must be thoroughly investigated preferably by an outside independent chartered accountant, with the purpose to recommend procedural changes and measures to prevent a re-occurrence.

These recommended changes and measures must be reviewed by the board and implemented by a director assigned by the board within a reasonable timeframe.

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