



**OFFICE OF THE AUDITOR-GENERAL**  
*Enhancing Accountability*

---

**Performance Audit Report of the  
Auditor-General  
on  
Management of Older Persons Cash Transfer  
Programme  
by  
The Department of Social Development**

---



**Ministry of East African Community, Labour and  
Social Protection**

**JANUARY 2018**

## **Vision**

Effective accountability in the management of public resources and service delivery.

## **Mission**

Audit and report to stakeholders on the fairness, effectiveness and lawfulness in the management of public resources for the benefit of the Kenyan People.

## **Core Values**

Independence

Integrity

Professionalism

Innovation

Team Spirit

## **Motto**

Enhancing Accountability

## **Foreword by the Auditor-General**

In my capacity as the Auditor-General of Kenya, I am pleased to submit to you a performance audit report on the management of the Older Persons Cash Transfer programme by the Department of Social Development under the Ministry of East African Community, Labour and Social Protection. My Office carried out the audit in line with the Public Audit Act, 2015. Section 36 of the Act mandates me to assess the economy, efficiency and effectiveness with which public money has been expended, pursuant to Article 229 of the Constitution.

Performance Audits together with Financial and Continuous Audits form the three-pillar audit assurance framework that I have established to give focus to the varied and wide scope of audit work done by my Office. The framework is intended to give assurance to stakeholders that public resources are not only correctly disbursed, recorded and accounted for but that they also have a positive impact on the lives of all Kenyans. The overriding goal of our performance audits is to promote delivery of public services of outstanding quality to Kenyans

The report is tabled in Parliament in accordance with Article 229 (7) of the Constitution. I have remitted copies of the report to the Ministry of East African Community, Labour and Social Protection. I wish to express my appreciation for the cooperation and assistance accorded to the audit team by the staff of the Department of Social Development.



**FCPA Edward R.O Ouko, CBS**

**AUDITOR-GENERAL**

**10 January 2018**



## TABLE OF CONTENTS

LIST OF TABLES .....	ii
LIST OF FIGURES .....	ii
LIST OF ABBREVIATIONS.....	iii
<b>EXECUTIVE SUMMARY .....</b>	<b>iv</b>
<b>CHAPTER 1 .....</b>	<b>1</b>
BACKGROUND TO THE AUDIT .....	1
Introduction .....	1
Motivation.....	1
<b>CHAPTER 2 .....</b>	<b>2</b>
DESIGN OF THE AUDIT .....	2
Objective of the audit .....	2
Scope of the Audit .....	2
Limitation of Scope.....	2
Methods Used to Gather Audit evidence .....	2
Sources of Assessment Criteria.....	2
<b>CHAPTER 3 .....</b>	<b>3</b>
DESCRIPTION OF THE AUDIT AREA.....	3
Legal Framework of the OPCT program.....	3
Organisational Framework.....	3
The core functions of the Ministry of Labour, Social Services and Security.....	4
Roles and responsibilities of key actors.....	4
OPCT Program Objectives .....	4
Process Description of the OPCT programme.....	4
<b>CHAPTER 4 .....</b>	<b>8</b>
AUDIT FINDINGS .....	8
Increase in OPCT programme coverage .....	8
Targeting and Enrolment.....	8
Payments to OPCT beneficiaries .....	9
Existance of Dead Beneficiaries in the Payroll .....	13
Roll over of OPCT Beneficiary Arrears .....	14
Minimum Service Level Agreement not adhered to.....	15
Legislated Provisions Excluded from Ministry’s Operational Manual.....	18
<b>CHAPTER 5 .....</b>	<b>19</b>
CONCLUSIONS.....	19
<b>CHAPTER 6 .....</b>	<b>19</b>
RECOMMENDATIONS.....	19
<b>ANNEXURES .....</b>	<b>21</b>
Annexure 1: Update/Roll over of Arrears by PCK and KCB .....	21
Annexure 2: Responce on Audit Findings by the Ministry of East African Community, Labour and Social Protection – State Department for Social Protection.....	22

**LIST OF TABLES**

Table 1: Number of beneficiaries and amount of Disbursement..... 8

Table 2: Delay in Targeting and Enrolment ..... 8

Table 3: County Statistics ..... 9

Table 4: Schedule of OPCT’s Payment Service Provider from January- August 2015.....10

Table 5: Commission Paid to PSP.....10

Table 6: Payments to beneficiaries.....11

Table 7: Delay in Disbursement Requests by MOLSSS in 2014/15..... 12

Table 8: Delay in Disbursements Processing by National Treasury in 2014/15..... 12

Table 9: Delay in Disbursements Processing by MOLSSS..... 13

Table 10: Summary of Delay in Update of Dead Beneficiaries ..... 13

Table 11: Estimated loss of arrears due to inadequate update of payrolls – PCK..... 15

Table 12: Delay in Card Replacement per County.....16

Table 13: Delay in Card Replacement Countrywide ..... 17

Table 14: No. of uncarded beneficiaries per pay point ..... 17

Table 15: Biometric Cards with Finger Print Issues .....18

**LIST OF FIGURES**

Figure 1: Organizational Structure of the OPCT Program ..... 3

Figure 2: OPCT Payment Process..... 6

Figure 3: OPCT Replacement Process of Beneficiaries..... 7

Figure 4: Distance Travelled to Pay Points .....16

## LIST OF ABBREVIATIONS

A/C	-	Account
AFROSAI-E	-	African Organisation of English-speaking Supreme Audit Institutions
BWC	-	Beneficiary Welfare Committee
DSD	-	Department of Social Development
DSDC	-	Department of Social Development Committee
DSDO	-	Department of Social Development Officer
F/Y	-	Financial Year
GEP	-	Geographical Expansion Plan
HQ	-	Headquarters
ID	-	Identification Card
INTOSAI	-	International Organisation of Supreme Audit Institutions
ISSAI	-	International Standards of Supreme Audit Institutions
KCB	-	Kenya Commercial Bank
LOC	-	Location Committee
MIS	-	Management Information System
MOLSSS	-	Ministry of Labour, Social Security and Services
OAG	-	Office of the Auditor-General
OPCT	-	Older Persons Cash Transfer
PSP	-	Payment Service Provider
SP	-	Social Protection

# Executive Summary

## BACKGROUND TO THE AUDIT

1. This report contains findings and other relevant details of a performance audit conducted by Office of the Auditor- General on the Management of Older Persons Cash Transfer (OPCT) program in Kenya. The OPCT programme is implemented by the Department of Social Development under the Ministry of East African Community, Labour, and Social Protection. The Ministry has four national social safety net programmes aimed at supporting overall poverty reduction of identified vulnerable population. The four cash transfers are for; older persons, persons with severe disability, the urban poor and orphans and vulnerable children.
2. Majority of older Persons in Kenya have worked throughout their lives and contributed through direct and indirect taxation but have no pension after retirement to compensate for loss of earnings. The Older Persons Cash Transfer (OPCT) programme was launched in 2007/2008 on a pilot basis in three districts of Thika, Nyando and Busia with an allocation of Kshs 2.4 million and targeted 300 beneficiaries. By 2015/2016, the programme had over 310,000 beneficiaries in all the constituencies in the forty seven counties in the country and disbursement of Kshs. 7.3 billion.
3. The OPCT programme targets persons of age 65 or more who are poor, vulnerable and are not beneficiaries of any cash transfer programme. The specific objectives of the OPCT programme are to cushion older persons and their households from income threatening risks such as sickness, poor health, and injuries; ensure enjoyment of quality life and break inter-generational poverty by providing younger household members with the opportunity to go to school or go to work through regular and predictable cash transfers.

## Objectives and Scope of the Audit

4. The OPCT programme has four main elements, start-up and mobilization, targeting and enrolment, payment and change management. The audit aimed to determine whether the Department of Social Development has managed the OPCT programme efficiently. Specifically the audit assessed whether the programme elements are implemented in a timely manner and how services were delivered to the OPCT beneficiaries within the financial years 2012/2013 to 2015/2016.

## Assessment Criteria

5. The assessment criteria for the audit were drawn from the programme's operations manual and the agency service agreement, the Social Assistance Act 2013 and the MoLSSS Strategic Plan of 2013-2017.

## Summary of audit findings

### The OPCT Programme has expanded progressively

6. The audit found that the Government has progressively expanded the OPCT programme. The number of beneficiaries was 164,000 in 2013/2014, 210,000 in 2014/2015 and 310,000 in 2015/2016. The disbursement was Kshs 2.4 billion in 2013/2014, Kshs 5 billion in 2014/2015 and Kshs 7.3 billion in 2015/2016. The programme coverage has increased from the initial three districts of Thika, Nyando and Busia in 2007/2008 to all the 47 counties.

## Targeting and Enrolment

7. Targeting is the process of identifying potential beneficiaries to be included in the programme. After the targeting the County Social Development Officer summarizes the outcome of the validation and sends it to the headquarters for enrolment into the program and the validated list is added to the payroll. The audit noted the following:
  - a) **Delay in targeting and enrolment of beneficiaries.** The last OPCT targeting programme started in September 2015 yet as at January 2016 the targeting results from the Ministry was not yet released to the counties yet it should have taken 94 days.
  - b) **Replacement of beneficiaries exited through death did not follow laid down procedure.** The primary eligibility criteria for enrolling an OPCT household is that the household should be extremely poor and have a member over 65 years of age. A beneficiary exited from the programme through three consecutive missed payments, death or annual verification activities should be replaced by another in the awaiting list after verification by the DSDO that they are eligible. During field visits to the beneficiaries, the audit found that there were dependents that were automatically enrolled upon death of a beneficiary.
  - c) **Targeting and enrollment of persons outside the target group.** During field visits the audit found that at times persons below 65 years and households that were not poor were also benefitting from the programme yet they were not within the OPCT target group.



## Payments to OPCT beneficiaries

8. The payment amount for each OPCT beneficiary had been set at Kshs 2,000.00 per month. Payments were made after every two months through a payment service provider. The audit noted the following:

- a) **Increasing uncollected amounts by the beneficiaries:** Analysis of the OPCT nationwide payments reports, revealed that the rate of unpaid beneficiaries/amounts had been relatively increasing as more beneficiaries are enrolled to the program. This was due to failure to detect beneficiaries' finger prints, mis-routed cards, having deceased beneficiaries in the payroll and long distance to the pay point among other causes. Within 14 days of the close of the pay period the payment service provider is expected to submit a reconciliation report and refunds for unpaid funds to the Ministry's designated account. An amount of Kshs 1,179,382 for the months of January to August 2015 was put in a designated account held by the payment service provider
- b) **Commission on unpaid beneficiaries:** The commission per transaction disbursement to the Payment Service Provider (PSP) is 2%. Between January and August 2015 the Ministry paid a total of Kshs 23,587,640.00 for transactions on unpaid amounts for a total of 101,335 OPCT beneficiaries. When a beneficiary misses payment and the funds are rolled over to the next payment cycle, the PSP gets double commission when the arrears are paid. This means that the Ministry's transaction cost increases thus increasing the cost of the cash transfer service delivery.
- c) **Overpaid bank commissions:** Analysis of the 2% commission paid to the PSP showed at times the PSP is overpaid. For instance in the January to April 2015 payment cycle, the PSP received Kshs. 31,117,290 as commission instead of Kshs. 25,685,280 representing an overpayment of commission by Kshs. 5,432,010.
- d) **Delays in payments to beneficiaries:** OPCT payments are made to beneficiaries on a bimonthly basis beginning the first week in the months of September, November, January, March, May and the last week of June in each financial year. The audit analysed 21 OPCT payment cycles between September 2012 and January 2016 and found that cash transfers were made after the expected timelines and had delays of between 15 and 270 days. Delays in payments to the OPCT beneficiaries were occasioned by three key factors, late requisition of funds by the Ministry, late disbursement of funds by the exchequer at

the National Treasury and delay in transfer of payments to the beneficiaries by the payment service provider as indicated in the following paragraphs;

- i) **Late requisition of funds by the Ministry of Labour Social Security and Services.** During the audit, OPCT disbursement data for only one financial year 2014/15 was analysed. It was noted that 50% of the disbursement requests by the Ministry were done long after the planned payment dates had elapsed with delays of between 27 and 90 days. This ultimately resulted to overall delays in the cash transfers to beneficiaries.
- ii) **Late disbursement of funds by the exchequer at the National Treasury to the Social Protection Headquarters.** The Programme's Operational Manual provides an approximate period of ten days for the transfer of funds from the National Treasury to the Social Protection unit at the MOLSSS after requisition of cash transfer funds. Out of the six payment cycles analysed for the 2014/15 financial year, requisitions for 83% were processed and disbursed by National Treasury days after the designated time period. The delay periods were found to be between two and thirty days and were attributed to delays in processing and disbursement of the OPCT funds at the National Treasury due to inadequate financial resources at the exchequer as and when requested.
- iii) **Delay in processing of disbursements to the payment service provider by the Ministry.** As stated in the PSP agency agreement, the Ministry should remit the OPCT funds and payrolls to the payment service Provider (PSP) at least seven days before the commencement of the payment period. Examination of payment vouchers and funds transfer records maintained by the Department Social Development for the year 2014/15 revealed a delay of between one and twenty six days in the processing of disbursements to the PSP. It took a period of between five and thirty days after receipt of funds from National Treasury to make the transfers of funds to the PSP accounts yet it should only take 4 days according to the programme manual.

### Existence of dead beneficiaries in the payroll

9. It should take thirteen days to update dead beneficiaries in the management information system (MIS) from the time the county/sub-county coordinator submits the forms up to

the replacement of a new beneficiary. Analysis of records for seven sub counties reflected that it took over two years to remove dead beneficiaries from the Ministry's MIS. OPCT beneficiaries who died between 2012 and 2014 still appeared in the payroll three years later as at July/August 2015. Delay in the update of the MIS led to the beneficiaries who are in the waiting list not being enrolled into the payroll. Reasons for the delay in the updating details of dead beneficiaries in the OPCT's MIS were as follows:

- a) **Lack of monitoring by the county/sub-county coordinators** - Monitoring of the programme is done to identify the gaps that are in the program and ensures that the deaths of the beneficiaries are captured and that they are exited from the program in time. Due to lack of monitoring, 208 beneficiaries who had already died and the caregiver did not report continued to pick payments.
- b) **Late submissions of the payroll by the headquarters to County/Sub-county coordinators** for verification left no room for counterchecking or updating, hence a beneficiary who died was still in the payroll and the caregiver still collecting the payments. Payrolls cannot be generated until the post-payment checks and reconciliations from the previous cycle have been completed, and the pre-payroll checks for the current cycle have been completed.
- c) **Errors in the MIS update**- Once the lists of dead beneficiaries in the program have been updated in the MIS, their names should not appear again in the payroll. In some counties there were issues in the payroll where beneficiaries who had been earlier exited in the payroll due to death had reappeared in the payroll
- d) **Non-timely action by the department.** When the County/Sub-county coordinator submits their lists to the headquarters on those who should be exited from the program as a result of death, non-timely action is taken by the department in that people who died in 2012 - 2014 were appearing in the payroll of July/August 2015.

#### Roll over of OPCT beneficiaries arrears

10. The Ministry's cash transfer manual states that OPCT payments that were not collected during a payment transfer window will roll over to the next payment cycle, enabling the payment beneficiary to collect a cumulative amount. The Ministry used the manual system of the Postal Corporation of Kenya (PCK) as the OPCT payment service provider until December

2014. In January 2015 the Ministry sought the electronic services of KCB as a PSP. Analysis of sampled PSP payrolls revealed that for every 1 million disbursed almost Kshs 30,000.00 incurred as beneficiaries' arrears was not rolled over to the next cycle or paid to beneficiaries when PCK was the payment service provider. Hence the program might have lost money in terms of unpaid arrears. KCB as PSP had a timelier and accurate roll over of arrears of 95% i.e. out of Kshs.23.7 million of uncollected payments Kshs.22.6 million was rolled over to the next cycle.

#### Ministry did not notify the PSP on minimum service level agreement not adhered to

11. Data generated from different KCB branches, sub – county offices and interviews conducted with sampled beneficiaries revealed that at times the beneficiaries experienced various challenges before and during the payment service delivery which breached the minimum service level agreement. The challenges ranged from travelling of long distances to various pay points, faulty payment cards, and unloaded payment cards during payments and misrouting of beneficiaries' cards to wrong pay points. The audit found that the Ministry was not effectively following up on breaches on the minimum service level. There was also nothing to indicate that the Ministry had notified the PSP on the breaches to enable them respond and compensate the beneficiaries on the following issues:

- a) **Beneficiaries travel inordinate long distances to PSP pay points:** The service level agreement imposed a penalty of Kshs. 500 per cycle for each beneficiary who travels beyond the designated 6 Km distance. The audit noted that 86% of the beneficiaries sampled were travelling more than the stipulated 6 Km yet had never been compensated.
- b) **Pay - point cash non availability:** The audit found that, at times the payment agents arrangements were unreliable in making the cash transfer payments since they did not have adequate cash.
- c) **Delay in replacement of biometric cards:** The Service Level Agreement between the Ministry and KCB limited (it's PSP) states the duration of card replacement from the date of notification to the bank of lost or faulty cards to the time the card is replaced and delivered to the beneficiary should be 30 days otherwise a penalty of Kshs 50 is imposed to the PSP for each card delayed. The audit found that 62% of the biometric cards on the sampled counties took at least forty days

to be delivered. The audit found that 12,560 biometric cards were reprinted countrywide since the first payment by KCB in May 2015. A further 4,046 cards were printed and delivered to the beneficiaries within 30 days by February 4 2016. Of these cards 5,727 took at least 40 days to be printed and delivered to the beneficiaries.

- d) **Enrolled beneficiaries were not issued with biometric payment cards:** The audit found that as at December 2015, a total of 26,511 beneficiaries had not been issued with the biometric cards though they were enrolled in April 2015. Analysis of OPCT payrolls in the eleven sampled PSP branches established that a total of 2,444 beneficiaries did not possess cards and therefore could not access their cash transfers.
- e) **Faulty Payment Cards due to finger prints:** The audit found that some beneficiaries were issued with faulty cards at the registration stage resulting to them not being able to access their cash transfers.
- f) **Uncarded beneficiaries:** By December 2015, the PSP had not yet issued biometric cards to 26,511 beneficiaries. By then the PSP had paid a total of three cycles amounting to KShs 16,000.00 per beneficiary and these unpaid amounts had not been returned back to the exchequer even after their reconciliation. Therefore, an approximate amount of Kshs 424,176,000.00 had not been collected by these beneficiaries. This posed the risk of loss of the program funds in event that the uncollected cards are used to enroll underserving beneficiaries into the program.

### **Ministry's operational manual did not include provisions legislated by Parliament**

- 12. In 25 January 2013 Parliament enacted the Social Assistance Act 2013 that established an Authority to be known as the National Social Assistance Authority. The functions of the Authority as stated in the January 2013 Act included to identify and provide social assistance to persons in need of social assistance; advise the Minister responsible for matters relating to social development on the national policy to be adopted with regard to provision of social assistance ;formulate and enforce standards for the conduct of social assistance programmes ,develop, maintain and operate a national social assistance information management system and develop guidelines for implementation and monitoring and evaluation of social assistance programmes among others.
- 13. In May 2013 the Ministry of Labour, Social Security and Services was given the mandate of social assistance programs vide Presidential

Circular No. 2 of 2013. In June 2013, the Ministry developed a cash transfer operations manual designed to help manage the cash transfer programs on older persons, persons with severe disability and urban food subsidy effectively. The Ministry's cash transfer manual did not include the functions of the Authority in the OPCT's operational activities. The National Social Assistance Authority has not been established.

### **Conclusions**

- 14. The programme has indeed made some remarkable achievements such as improved household food security, access to basic health care, increased self-esteem and dignity for the beneficiaries and stimulation to establishment of small scale income generating initiatives. The Ministry can manage the OPCT programme in a more effective way to ensure that it meets its intended objective of providing regular and predictable cash transfers that contribute to poverty reduction in households containing older people
- 15. As at 2016, the OPCT programme was operating in all constituencies; however, due to funding constraints coverage was not universal hence not all deserving people are enrolled in the program. Unpaid funds of almost Kshs 0.3 billion every two months were kept at a designated account by the PSP which is an opportunity loss of cash transfer benefits to almost 60,000 extra older persons.
- 16. The OPCT beneficiary households face a number service delivery challenges. These challenges have a negative effect on the quality and effectiveness of the OPCT Program. The program elements are not being implemented in a timely manner and service delivery to the OPCT beneficiaries was not adequate. The irregular and unpredictable payments is a major problem that affected performance of the OPCT program. Delayed payments have a negative impact on the wellbeing and livelihood strategies of beneficiaries, threatening their achievements, undermining social safety net functions and, in some cases, worsening the economic security of these households. Breaches to the beneficiaries by the payment service provider were never compensated and beneficiaries continued to travel inordinately long distances to pay points, had faulty biometric payment cards experienced delays in replacement of cards. These challenges could easily have been resolved by having a mobile bank paying services to the beneficiaries.

## Recommendations

17. In view of the findings and conclusions of the audit, the Auditor-General, proposes the following recommendations for implementation by the Ministry of East African Community, Labour, and Social Protection:
18. **To ensure that targeting and enrolment is conducted in a more effective manner:**
  - i) Ensure that stipulated targeting period is adhered to and vast counties and counties targeting a large number of beneficiaries are allocated sufficient resources
  - ii) Ensure that replacement of beneficiaries is done as per laid down procedures
  - iii) Put in place additional controls aimed at avoiding enrollment of persons outside the target group
19. **To improve payments service delivery to OPCT beneficiaries:**
  - i) Carry out a review of the payment process to identify major bottlenecks in releasing payments on time
  - ii) Improve the process for notifying beneficiaries on payment dates or of delays in order to enable them plan and minimize potential negative effects and to minimize the costs associated with unpaid beneficiaries
  - iii) Enforce the stringent timelines that are given in the operational manual and make the requisition of funds from National Treasury earlier before months of payment
  - iv) Ensure that there is an adequate system to ensure that unpaid funds are all accounted for
  - v) Put in place controls to ensure funds are requested on time to allow for timely payments to beneficiaries
  - vi) Have regular reconciliations to avoid overpayment of commissions
20. **To improve timeliness and accuracy of MIS update:**
  - i) Carry out adequate and regular follow up on beneficiaries' eligibility status to the program, reasons for non-collection of payments etc.
  - ii) Have a more effective way of getting information and updates of beneficiaries' status/issues that will inform the MIS and other key program decision making.
  - iii) The County/Sub-county coordinators should liaise with ex- officials quarterly to visit households for information purposes to update the payroll to capture beneficiary deaths in their location in order to minimize delay in update of dead beneficiaries.
21. **To improve efficiencies in service delivery by the Payment Service Provider:**
  - i) Develop special service delivery charter for the payment service provider detailing standards and timelines for delivery of cash transfer activities and processes
  - ii) Establish mechanisms for monitoring, evaluating and reporting on performance of the PSP against the standards on a regular basis.
  - iii) Monitor and enforce breaches on minimum service delivery agency agreement with KCB for all the already paid cycles
  - iv) Address delays in provision of services by the PSP,
  - v) Implement an integrated management information system that collects, records, stores, processes and shares information in support of all operational functions/ processes and complaints mechanism between the program headquarters, KCB and field officers at the county and sub – county levels.
  - vi) Ensure that the PSP at the County level liaises closely with the OPCT County coordinator to help in mobilizing the beneficiaries when the cards are ready for collection at the pay point and reduce the unnecessary delays.
22. **To have a more effective implementation of the OPCT programme:**
  - i) Emphasize on a continuous engagement between County/Sub-County levels and locational levels to identify changes required
  - ii) Conduct in-depth investigations on unpaid arrears due to insufficient update of payrolls to ascertain amounts involved and its whereabouts
  - iii) Compensate beneficiaries as required based on breaches of payments and unpaid arrears

# CHAPTER 1

## 1.0 BACKGROUND TO THE AUDIT

### Introduction

- 1.1 This report contains findings and other relevant details of a performance audit conducted by the Office of the Auditor-General on the Management of Older Persons Cash Transfer (OPCT) program in Kenya. The audit was carried out as provided for under Section 36 of the Public Audit Act 2015 and Article 229 of the Constitution. The OPCT program is implemented by the Department of Social Development under the Ministry of East African Community, Labour, and Social Protection.
- 1.2 As stated in the national policy for older and aging person's majority of older people in Kenya have not worked in the formal sector and therefore have no access to contributory pension schemes. The OPCT program was launched in 2007/2008 on a pilot basis in three districts of Thika, Nyando and Busia with an allocation of Kshs 2.4 Million and targeted 300 beneficiaries. The OPCT was launched with the aim of contributing to poverty reduction in households containing older people through provision of regular and predictable cash transfers. By 2015/2016 OPCT program was covering all the 47 counties and had 310,000 beneficiaries and an allocation of Kshs. 7.3 billion. The OPCT program targets persons of age 65 years or more who are poor, vulnerable and not beneficiaries of any other cash transfer program.

### Motivation

- 1.3 The Auditor-General authorized the audit after having considered the following factors:
  - a) Parliamentary discussions as raised in the Hansard reports indicated numerous concerns on the status of implementation of the OPCT program. The concerns included lack of adequate information to interested stakeholders on budgetary allocations per county, mode and verification mechanism for disbursements, accessibility of funds and beneficiaries disbursement data
  - b) There were public concerns in the media that not all deserving citizens knew about the program, people outside the target group were benefiting from the program and money was being paid to the wrong persons. In addition, the cash transfers to the beneficiaries were irregular, unpredictable and uncoordinated with other cash transfer programs which resulted to questionable payment

arrangements and inefficiencies

- c) The Government has progressively increased financial resources for the expansion of the program from Kshs.1.5 billion in 2012/2013, Kshs. 2.5 billion in 2013/2014, Kshs. 5 billion in 2014/2015 and Kshs. 7.3 billion in 2015/2016. It was therefore prudent that a performance audit be carried out to obtain recommendations that will strengthen operational systems while expanding the coverage of the OPCT program in the country.

# Chapter 2

## 2.0 Design of the Audit

### Objective of the audit

2.1 The audit aimed to determine whether the Ministry of Labour, Social Services and Security (MOLSSS) has managed the older persons cash transfer programme (OPCT) efficiently. Specifically the audit assessed whether the program elements are implemented in a timely manner and how services are delivered to the OPCT beneficiaries.

### Scope of the Audit

2.2 The OPCT key activities include start up and mobilization, targeting and enrolment, payments and change management. The audit did not look at start-up and mobilization because at the time of the audit there were no new areas being targeted. The audit focused on examining the remaining OPCT program activities within the Department of Social Development in the Ministry from 2012 to 2016 in seven counties. Non - probalistic sampling was adopted; first all the 47 counties were categorized into low, medium and high beneficiary population, then 2 counties Kilifi and Nairobi were picked from the high populated zone. For convenience and fair regional balance, environs of these two counties were selected to make the sample i.e. Nairobi County: Kiambu and Nyeri counties were selected and Kilifi County: Makueni, Kwale and Mombasa counties were selected.

### Limitation of Scope

2.3 Ministry of Labour, Social Securities and Services did not avail some requested data and documents. Documents not availed included requisition letters from the Ministry, exchequer payments, disbursement of funds to the payment service provider (PSP) and payment dates to beneficiaries, payrolls and accurate data on deceased beneficiaries. The audit was limited due to unavailability of those data.

### Methods Used to Gather Audit evidence

2.4 The audit was carried out in accordance with Performance Auditing Guidelines set by the International Organization of Supreme Audit Institutions (INTOSAI) and audit policies established by the Office of the Auditor - General. The guidelines and polices fulfill the requirements of International Standards of Supreme Audit Institutions (ISSAI's). Document reviews and interviews were used to collect the audit evidence.

### Sources of Assessment Criteria

2.5 The criteria used were drawn from MOLSSS Cash Transfer Operations Manual and the MOLSSS/ Payment Service Provider Agency Agreement, the Social Assistance Act 2013 and the MoLSSS Strategic Plan of 2013-2017. The specific criteria are cited in the findings of the audit in Chapter 4 of this report.

# Chapter 3

## 3.0 Description of the Audit Area

### Legal Framework of the OPCT program

3.1 The Government of Kenya has made commitments to address issues of the elderly through various legal frameworks to ensure social protection. These include:

a) **Kenya's constitution.** Kenya's constitution provides for the rights of older persons to fully participate in the affairs of society, live in dignity and respect, be free from abuse and receive reasonable care and assistance from their family and the State. Article 57 requires the Government to take measures to ensure that older persons fully participate in the affairs of the society, pursue their personal development, live in dignity and respect, be free from abuse and receive reasonable care and assistance from their family and the State. Article 21 requires all state organs and public officers to address the needs of vulnerable groups within the society, including women, older members, and persons with disabilities, children, and youth, members of minority or marginalized communities, and members of particular ethnic, religious or cultural communities. Article 43 mandates the Government to provide social security to every person and appropriate social security to persons who are unable to support themselves and their dependents.

b) **Kenya's Social Assistance Act 24 of 2013.** Article 43 (1) (e) of the Constitution established a National Social Assistance Authority to provide for the rendering of social assistance to persons in need and for connected purposes. Article 21 of the Social Assistance Act states that "A person qualifies for social assistance as an elderly person if the person has attained the age of 65 and has been neglected or abandoned without any ascertainable means of support; or lives or begs on the street for a living."

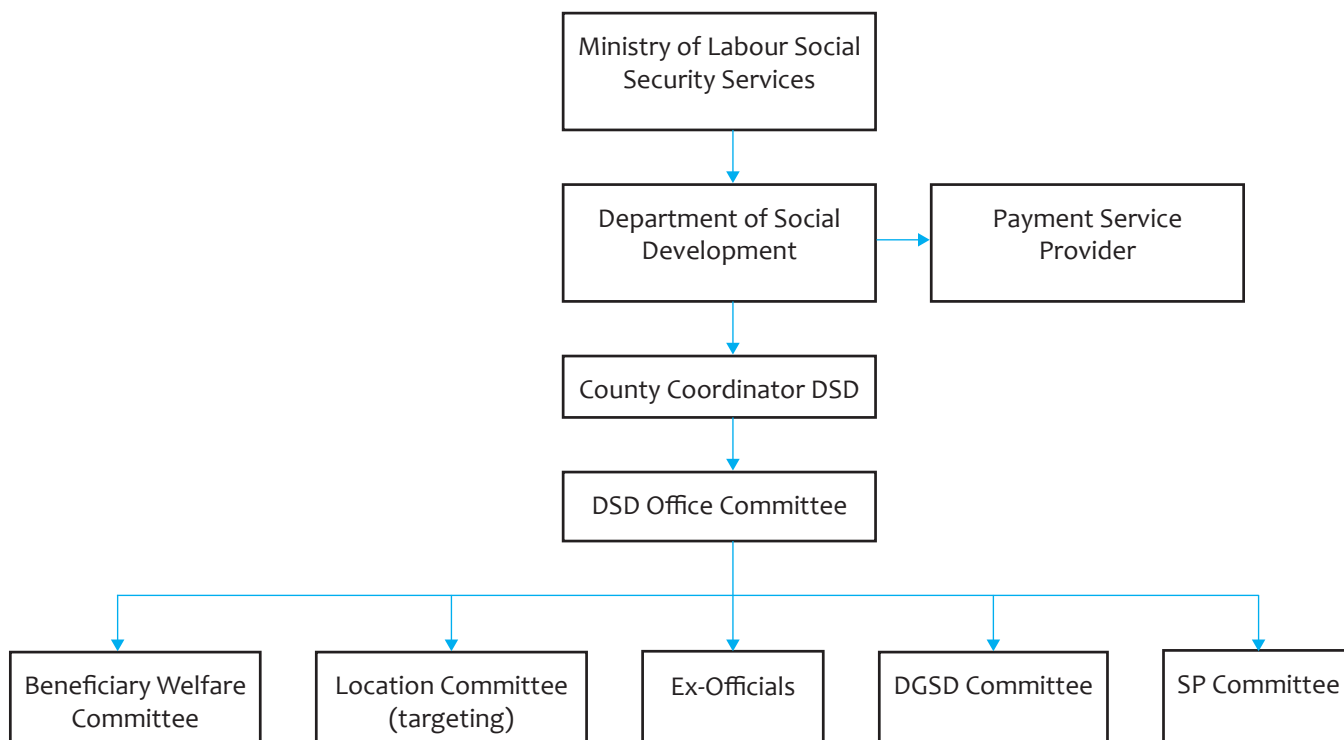
c) **Kenya's National Social Protection Policy.** The policy among other issues emphasizes on social protection in old age through either non-contributory benefits focused on reducing poverty and vulnerability, or contributory benefits aimed at maintaining the income of individuals. The purpose of the social safety net programs is to support overall poverty reduction to improve the welfare and resilience of beneficiaries in identified vulnerable populations.

### Organisational Framework

3.2 The Older Persons Cash Transfer (OPCT) Programme is one of the three cash transfer programs under the National Safety Program that contributes to the wider Kenyan national social protection framework. The OPCT Program is under the Ministry of East African Community, Labour and Social Protection.

The OPCT's organizational structure as at June 2016 is as shown in **Figure 1**.

**Figure 1:** Organizational Structure of the OPCT Programme



Source: Ministry of Labour, Social Services and Security

## The core functions of the Ministry of Labour, Social Services and Security

3.3 The core functions of the Ministry include formulation and implementation of Social Protection policies and developing, reviewing and implementation of policies on community development, persons with disabilities, older persons and ageing, volunteerism and family protection.

### Roles and responsibilities of key actors

3.4 Roles and responsibilities of key actors involved in the OPCT program as stated in the Ministry's June 2013 cash transfer manual are:

- a) **Social Protection Secretariat:** helps the government by providing support and management of all the national social safety net programs and ensures that the National Social Protection policy is incorporated by the programs and being followed by them. The Secretariat has a key role in overseeing the overall implementation of the National Safety Net Program, NSNP, managing a Single Registry for the National Safety Net Program, and overseeing the geographic expansion of the five programmes which make up the National Safety Net Programme.
- b) **Ministry of Labor, Social Security and Services:** Is responsible for overall coordination, operation and financing of the programs which are managed by the Programme for Social protection. Their roles and responsibilities to these programs include making of policies such as designing expansion or scale up of programmes, manage disbursement of funds and resources provide policy guidelines for implementation of the program and many others, and also implementation that involves ensuring administrative levels are equipped with adequate resources, monitor implementation of programme guidelines among others.
- c) **Department of Social Development:** Is responsible for the management of the OPCT cash transfer Program.
- d) **County Coordinator Social Development:** This office is responsible for overseeing the program at county level.
- e) **District Social Development Office (DSDO):** Is responsible for implementation and operations of the OPCT program at the sub County level. This comprise of the Sub County officer and an assistant.
- f) **District Social Development (DSD)**

**committee:** Are district based committees which comprise of local leaders and members of the community. Their function is to support the DSDO with identification of the beneficiaries and monitoring.

- g) **Social Protection (SP) Committee:** They operate at the sub-county levels and is comprised of local members of multiple ministries. Their role is to oversee and monitor social protection involvements, coordinate and synchronize programmes among others.
- h) **Location Committees (LOC) :** Their key functions involve gathering the communities for meetings and identifying beneficiaries during targeting and registration. The LOC is formed with the help Department of Social Development Committee (DSDC), but the members have to be voted in by the community. They are disbanded once targeting is complete.
- i) **Ex - officials:** Are comprised of local leaders e.g. Chiefs, assistant Chiefs, village elders who assist in communication of payment dates to the beneficiaries and also mobilizing the community for meetings.
- j) **Beneficiary Welfare Committee:** Is a group that comprises of beneficiaries. Their role is to check the on-going local operations of the programme and to assist in mobilization during payments.
- k) **Payment Service Provider:** It is an institution contracted by MOLSSS responsible for distributing the cash transfers to the beneficiaries.

### OPCT Programme Objectives

3.5 The objective of OPCT program is to contribute to poverty reduction in households containing older people through the provision of regular and predictable cash transfer so as :

- To cushion older people and their households from income-threatening risks such as sickness, poor health, and injuries.
- To break inter-generational poverty by providing younger household members with the opportunity to go to school or go to work.

### Process Description of the OPCT programme

3.6 MOLSSS's cash transfer operation manual states that the OPCT programme key processes involves start-up and mobilization, targeting and enrolment, payment and change management processes as indicated in the following paragraphs:

- a) **Start-up and mobilization:** These activities



take place when the programme is starting in a new operational area. They are also applied in the event of a large-scale targeting initiative or if it has been more than two years since a targeting exercise has occurred. Key activities include the establishment and training of the various committees by the County and Sub-County coordinators which support the implementation of the programme at county, sub-county and location level and mobilization and awareness-raising of the community.

**b) Targeting:** Targeting is the process of identifying potential beneficiaries to be included in the program. Since there are many households in need of assistance and limited funds, the smooth and fair operation of the targeting process is important. Targeting of beneficiaries for the programme involves the following three primary steps:

**i) The selection of locations through geographical targeting:** Geographical targeting is defined by annual expansion plans developed at the national level and based on estimates of poverty and vulnerability calculated from the most recent census and Kenya Integrated Households Budgetary Survey (KIHBS) data. Annual Geographical Expansion Plans (GEP) determines which additional locations will be brought into the program and the number of new beneficiaries each location will receive. The number of additional beneficiaries to be added to the program is based on increases in program funding and the size of the cash transfer. The number of planned beneficiaries by location is indicated in the expansion plan based on an analysis of vulnerability and poverty criteria. The County Coordinator and DSDO are informed by the Program for Social Protection headquarters when locations in their County or sub-County have been selected for inclusion in the program or an expansion in the beneficiary number.

**ii) The selection and verification of households:** Identifies the household eligible for the program within a geographic area. Since coverage is not universal, the program seeks to target the poorest and most vulnerable households who fit the criteria which are as follows;

- **Primary criteria:** Household is categorized as extremely poor and vulnerable

according to the Poverty Score Card and has a member over 65 years of age. The Poverty Score Card: determines which of the eligible households' best fit the program definition of 'extremely poor and vulnerable. The Poverty Score Card assigns each registered household a poverty and vulnerability score based on their answers to a series of questions. The households with the highest scores are considered the most poor and vulnerable and thus most eligible for the program. The Poverty Score Card analysis categorizes assessed households into three groups: 'Not Poor', 'Poor' and 'Extremely Poor'. Only those households with a score falling into the extremely poor category are eligible for the program.

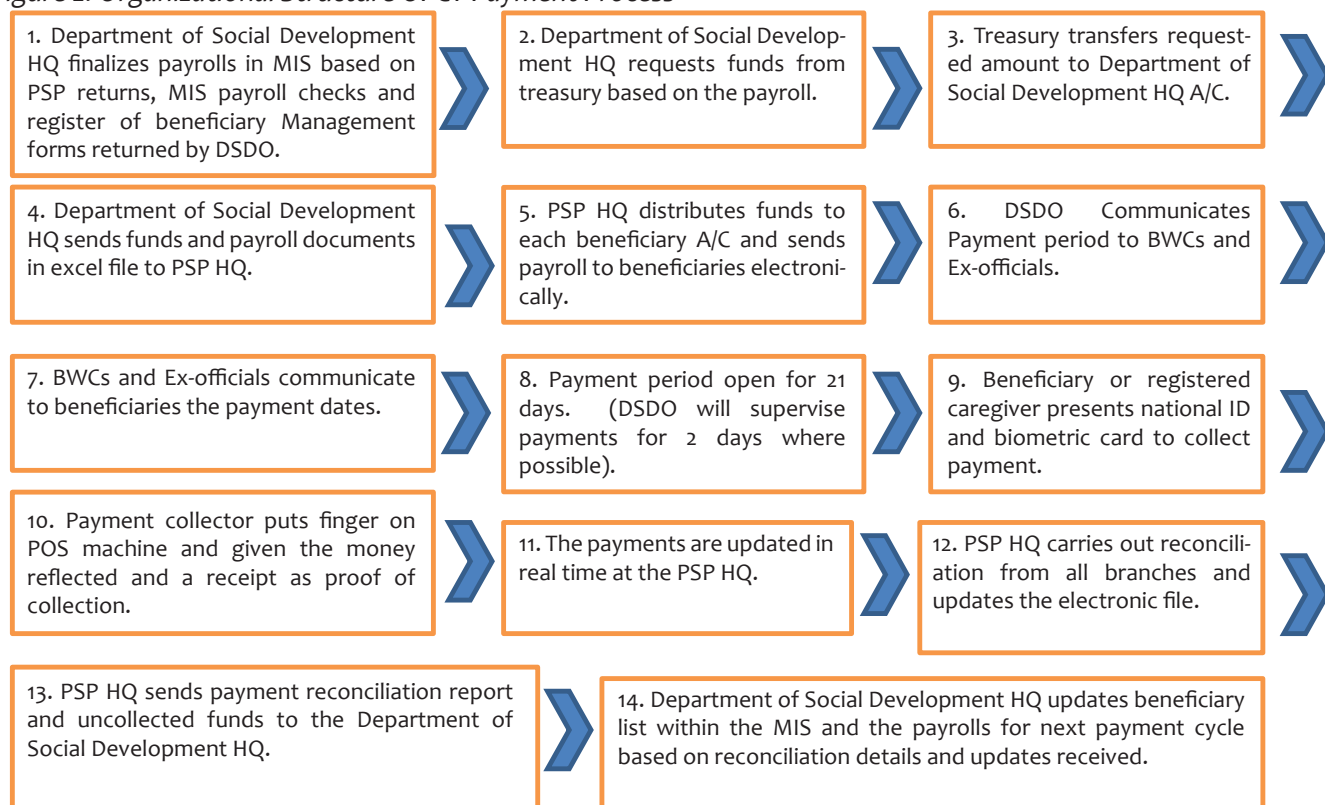
- **Secondary criteria:** A Beneficiary must be a Kenyan citizen with a national ID at the time of enrolment and must have resided in a location for more than a year. In addition the household should be earning less than Kshs 2,000.00 (for an urban area) or less than Kshs 1,500.00 (for a rural area). The Household should also not be enrolled in any other cash transfer program nor receiving a regular pension.

**iii) The community validation of the household selected:** once the ranking has been done by the MIS at the headquarters the report is sent to the District Social Development Officer who informs the community that the beneficiaries have been selected and instructs them to call a validation baraza. The names of households selected are called out in the baraza for validation by members of the community.

**c) Enrolment:** The District Social Development Officer summarizes the outcome of validation and sends it to the headquarters for enrolment into the programme and the validated list is added to the payroll.

**d) Payment:** The OPCT payment process is explained in **Figure 2**.

Figure 2: Organizational Structure OPCT Payment Process



Source: OPCT Programme Manual

**Benevolence Payments:** When a beneficiary dies, the registered caregiver (if a member of the household) is entitled to six months of transfers (Kshs. 12,000.00). This amount is collected over three payment cycles. In instances where a beneficiary has been unable to collect a previous period's payment, and he/she passes away, the household member collecting the benevolence payment, will also collect the full amount owed to the beneficiary, e.g Kshs 12,000 and the uncollected amount.

**Missed Payments:** A payment that has not been collected during a payment transfer window will roll over to the next payment cycle, enabling the payment collector to collect a cumulative amount. Beneficiaries should be made aware of this, so that they know what payment to expect each cycle. However, if a payment is not collected for three consecutive payment periods, the beneficiaries will be exited from the programme.

e) **Change Management:** is divided into two parts i.e. when a beneficiary should be exited from the program and how a replacement can be found.

i) **A beneficiary is exited from the program under the following circumstances:**

- If the beneficiary dies, a household member

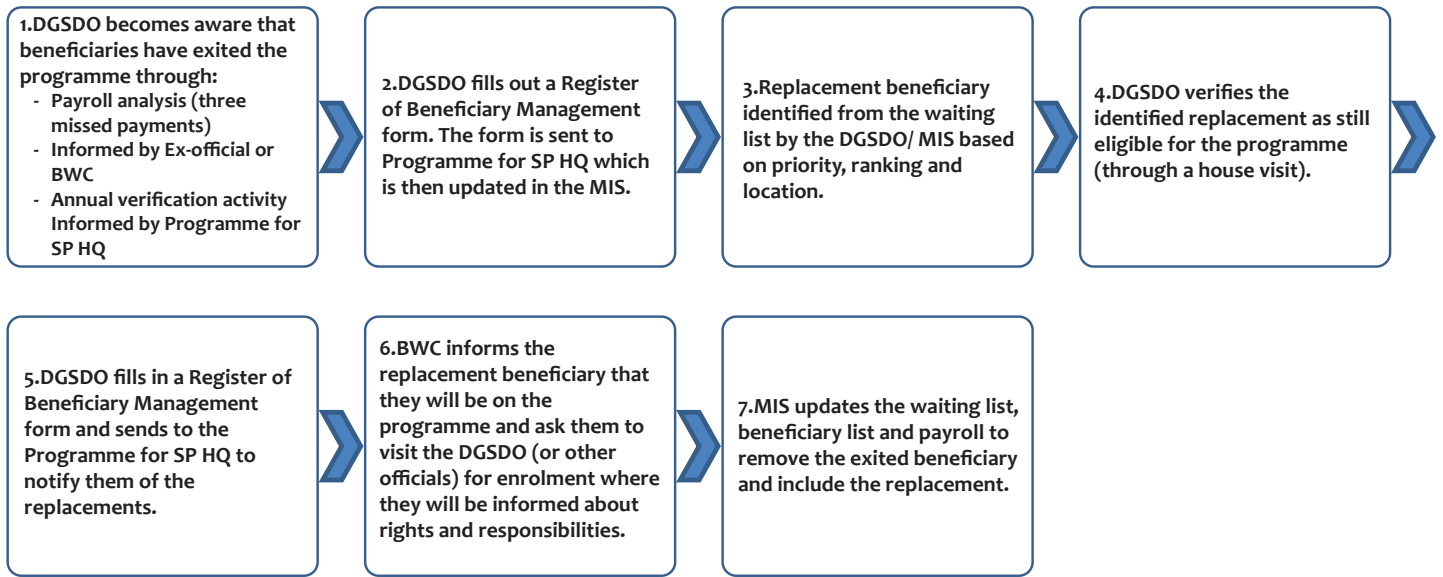
can collect six months payment amounting to Kshs 12,000.

- If the beneficiary moves out of the program location
- If the beneficiary does not collect their cash for three consecutive payments
- If the beneficiary is found to have provided false information
- If the beneficiary willingly withdraws from the program
- If the beneficiary graduates from the program (it can be proved that they have been able to overcome their poverty circumstances and are now benefitting from a regular income).

ii) **Replacement:** Is the process of enrolling a new beneficiary into the programme once an existing beneficiary has existed and is done on an on-going basis to ensure that the programme continues to reach the full quota of beneficiaries per constituency. If there is another person in the same household who might meet the targeting criteria, he or she does not get automatically enrolled into the programme when the beneficiary is removed from the programme. The replacement beneficiary is selected from the waiting list. The household member must go through the targeting and replacement to enrolled.

Replacement process is explained by **Figure 3**.

Figure 3: OPCT Replacement Process of Beneficiaries



**Source:** The MOLSSS Operations Manual

# Chapter 4

## 4.0 Audit Findings

### The OPCT program coverage has increased over the years

4.1 The OPCT program has seen the number of beneficiaries increase from 200 in 2007/2008 to 310,000 in 2015/2016 and the disbursement increase from Kshs 2.4 million in 2007/2008 to Kshs 7.3 billion in 2015/2016 as shown in **Table 1**. The program coverage has increased from the initial three (3) district of Thika, Nyando and Busia in 2007/2008 to all the 47 counties. The Ministry has three year expansion plan agreed upon by Government of Kenya and World Bank as a National Safety Net Programme for 2014/2015 to 2016/2017.

**Table 1:** Number of beneficiaries and amount of Disbursement

Financial Year	Number of OPCT Beneficiaries	Annual Disbursements in Kshs
2007/2008	200	2,400,000
2008/2009	300	4,000,000
2009/2010	33,000	530,000,000
2010/2011	33,000	530,000,000
2011/2012	36,036	1,000,000,000
2012/2013	59,000	1,500,000,000
2013/2014	164,000	2,474,000,000
2014/2015	210,000	5,040,000,000
2015/2016	310,000	7,329,000,000

4.2 An impact assessment done by the Ministry in 2013 and interviews conducted with the beneficiaries during the audit, indicated that the OPCT program had some remarkable achievements such as improved household food security, retention of children in schools, access to basic health care, increased self-esteem and dignity for the beneficiaries and establishment of small scale income generating initiatives. In spite of the achievements the audit established the following challenges affecting the program:

### Targeting and Enrolment

4.3 Targeting is the process of identifying potential beneficiaries to be included in the program. After the targeting the County Social Development Officer summarizes the outcome of the validation and sends it to the

headquarters for enrolment into the program and the validated list is added to the payroll. We noted the following issues:

#### a) Delays in targeting activities

4.4 The Ministry of Labor, Social Security and Services Cash transfer operations manual shows that the duration of time to be taken for targeting and enrolment into the program should be 94 days or approximately three months. In the financial year 2014/2015, beneficiaries who were enrolled in the OPCT program experienced an eight months delay in the targeting and enrolment process. The last targeting program done by the Ministry for the OPCT program beneficiaries started in September 2015. The audit noted that five months later as at January 2016 the targeting process had not been concluded. As at 29 January 2016, the targeting results from the Ministry's management information system (MIS) showing the household ranking was not yet released to the counties by the Ministry headquarters. Hence there was a delay of between 40 and 57 days above the stipulated targeting period in five sampled counties as at 29 January 2016 as shown in **Table 2**.

**Table 2:** Delay in Targeting and Enrolment

County / Sub-County	Date of Targeting	Delay in release of MIS report by the headquarters (Days) as at 29 Jan 2016
Nairobi	1 Sept -28 Sept 2015	57
Kiambu (Thika)	4 Sept- 19 Oct 2015	54
Kilifi (Kilifi )	3 Sept - 8 Oct 2015	55
Mombasa	17 Sept – 30 Oct 2015	40
Kwale	14 Sept-20 Nov 2015	43

Source: DSDO Interviews

4.5 Interviews conducted at the sampled counties revealed that the delay in the targeting and enrollment process was because only one vehicle was allocated for each county visited to facilitate the county and sub-county coordinators to manage the program. The vehicle was stationed at the county coordinator's office to be used by all the sub county coordinators. The audit further found that the time and vehicles allocated per county for the targeting and enrollment of the OPCT programme was the same irrespective

of the number of beneficiaries targeted or the geographical vastness of the counties. Vast areas like Kilifi and Kwale were targeting at least 2,000 beneficiaries compared to Makueni and Nyeri which were targeting half the number yet the duration for targeting and enrolment was the same for all the counties. Further in Kwale county, the vehicle had broken down as at the time of targeting, yet the county was vast, had a rough terrain and the beneficiaries were sparsely distributed making it difficult to access them within the time allocated for the targeting process. The geographical vastness of some of the sampled counties being targeted is shown in **Table 3**. Delay in targeting and enrolment meant that the programme was not meeting its objective of regular and predictable payment.

**Table 3: County Statistics**

County	Size (Sq. Km)	Density (Persons Per Sq.Km)	No. Of Vehicles Allocated
Nairobi	695.1	4515	1
Kiambu	2543.4	638	1
Nyeri	3337.1	208	1
Makueni	8008.8	110	1
Kilifi	12609.7	88	1
Mombasa	218.9	4292	1
Kwale	8270.2	79	1

Source: KNBS 2009 Survey Data and MOLSSS Data

**b) Replacement of beneficiaries exited through death did not follow laid down procedure.**

4.6 The objectives of OPCT programme is to contribute to poverty reduction in households containing older people through the provision of regular and predictable cash transfer so as to cushion older people and their households from income-threatening risks such as sickness, poor health, and injuries and break inter-generational poverty by providing younger household members with the opportunity to go to school or go to work. The primary eligibility criteria for enrolling an OPCT household is that the household should be extremely poor and have a member over 65 years of age. A beneficiary exited from the programme through three consecutive missed payments, death or annual verification activities should be replaced by another in the waiting list after verification by the DSDO that they are still eligible. During field visits to the beneficiaries, the audit found that there were dependents that were automatically

enrolled upon death of a beneficiary.

**c) Targeting and Enrollment of persons outside the target group.**

4.7 The programme focuses on providing cash transfers to poor households who have at least one member above the age of 65 years. During field visits the audit found that at times persons below the age of 65 years and households that were not poor were also benefitting from the program yet they were not within the OPCT target group.

**Payments to OPCT beneficiaries**

4.8 The payment amount for each OPCT beneficiary had been set at Kshs 2,000.00 per month. Payments were made after every two months through a payment service provider. The audit noted the following:

**a) Increasing uncollected amounts by the beneficiaries:**

4.9 Analysis of the OPCT nationwide payments reports revealed that the rate of unpaid beneficiaries/amounts had been relatively increasing as more beneficiaries are enrolled to the program. This was due to failure to detect beneficiary finger prints, mis-routed cards, having deceased beneficiaries still in the payroll and long distance to the pay point among other reasons. Within 14 days of the close of the pay period the payment service provider is expected to submit a reconciliation report and refunds for unpaid funds to the Ministry's designated account. An amount of Kshs 1,179,382 for the months of January to August 2015 was put in a designated account held by the payment service provider as shown in **Table 4**.

**Table 4:** Schedule of OPCT's Payment Service Provider from January- August 2015

Payment Cycle	Actual No. of Ben. in the Payroll	Amount Payable Kshs	Commission 2% Kshs	No. Of Beneficiaries Paid	Actual Amount Paid Kshs	No. Of Ben. Unpaid	Unpaid Amount (Re-fundable) Kshs	Commission Re-fundable Kshs
Jan-Apr 2015	160,533	1,284,264,000	31,117,290	133,488	1,068,016,000	27,045	216,248,000	Nil
May-Jun 2015	218,497	2,046,804,000	40,936,080	181,162	1,549,952,000	37,335	496,852,000	Nil
Jul-Aug 2015	212,560	1,298,092,000	25,961,840	175,766	831,810,000	36,955	466,282,000	Nil
<b>Total Amount</b>	<b>591,590</b>	<b>4,629,160,000</b>	<b>98,015,210</b>	<b>490,416</b>	<b>3,449,778,000</b>	<b>101,335</b>	<b>1,179,382,000</b>	

Source: PSP's OPCT payroll

**b) Commission on unpaid beneficiaries:**

4.10 Amounts associated with unpaid beneficiaries' burdens the program and country on social economic costs. The PSP's agreement with the Ministry signed on 23 October 2014, sets commission per transaction disbursement at 2%. Between January and August 2015 the unpaid commission for a total of 101335 beneficiaries amounted to 1,179,382,000 as shown in **Table 4**. The PSP collects 2% commission based on the total amount disbursed to its account by the Ministry. When a beneficiary misses payment and the funds are rolled over to the next payment cycle, the PSP gets double commission when the arrears are paid. This means that

the Ministry's transaction cost increases thus increasing the cost of service delivery.

**c) Overpaid bank commissions:**

4.11 Further analysis of the 2% commission paid to the payment service provider (PSP) showed at times the PSP is overpaid. For instance in the January to April 2015 payment cycle, the PSP received Kshs. 31,117,290 as commission instead of Kshs. 25,685,280 i.e 2% of 1,284,264,000 representing an overpayment of commission by Kshs. 5,432,010 as shown in **Table 5**.

**Table 5:** Commission Paid to PSP

Payment Cycle (Kshs)	Amount Payable (Kshs)	2% Commission Amount Paid To KCB (Kshs)	Actual Commission Amount Calculated (Kshs)	Surplus Payment (Kshs)
January - April 2015	1,284,264,000	31,117,290	25,685,280	5,432,010
May - June 2015	2,046,804,000	40,936,080	40,936,080	0
July - August 2015	1,298,092,000	25,961,840	25,961,840	0

Source: Analysis of KCB data

**d) Delays in payments to beneficiaries.**

4.12 The Cash Transfers Operational Manual states that the payments are to be made to beneficiaries on a bimonthly basis beginning the first week in the months September, November, January, March, May and the last week of June in each financial year. The Ministry is expected to communicate the payment period to the beneficiaries through their staff at the county level and the community structures. However, data generated from the Ministry and PSP's operations revealed that OPCT beneficiaries wait for unduly long periods of time before they receive the cash transfers.

expected timelines and had delays of between 15 and 270 days as shown in **Table 6**. Out of the analysed cycles, only three (14.29%) were paid within the intended two months as per the operational manual, ten of the cycles (47.62%) had a delay of between 15 and 60 days; five or 23.81% had a delay of between 61 and 90 days; while the other three cycles (14.29%) were delayed for over 120 days before the payments were made.

4.13 An analysis of 21 OPCT payment cycles between September 2012 and January 2016 revealed that the OPCT cash transfers were made after the

**Table 6:** Payments to beneficiaries

Financial Year	Payment Cycle	Months	Payment Start Dates		Approximate Deviation (Days)
			Planned	Actual	
2012/13	1	July – August	September, 2012	June, 2013	270
	2	September- October	November, 2012	June, 2013	210
	3	November-December	January 2013	June , 2013	150
	4	January – February	March 2013	June , 2013	90
	5	March – April	May, 2013	June , 2013	60
	6	May – June	June 2013	June, 2013	0
2013/14	1	July – August	September, 2013	November 2013	60
	2	September – October	November, 2013	April 2014	120
	3	November- December	January 2014	April 2014	90
	4	January – February	March 2014	April 2014	30
	5	March – April	May, 2014	June 2014	30
	6	May – June	June, 2014	June 2014	0
2014/15	1	July – August	September, 2014	23 December 2014	90
	2	September-October	November, 2014	19 January 2015	60
	3	November-December	January, 2015	19 January 2015	15
	4	January – February	March, 2015	11 May 2015	60
	5	March – April	May, 2015	11 May 2015	0
	6	May – June	June, 2015	7 <sup>th</sup> July, 2015	30
2015/16	1	July – August	September, 2015	21 September. 2015	15
	2	September- October	November, 2015	Not Paid	90
	3	November-December	January, 2016	Not Paid	30

Source: Cash Transfer Manual and Payrolls

4.14 During the audit 75 beneficiaries were interviewed and all of them expressed dissatisfaction with delays

in the OPCT cash transfer payments, since they were never consistent and beneficiaries had never been informed of any changes in the bi-monthly payment schedules. Delays in payments to the OPCT beneficiaries were occasioned by three key factors, late requisition of funds by the Ministry of Labour Social Security and Services, late disbursement of funds by the exchequer at the National Treasury to the Social Protection unit and delay in transfer of payments to the beneficiaries by the payment service provider as illustrated in following paragraphs:

- a) **Late requisition of funds by the Ministry of Labour Social Security and Services.** During the audit, OPCT disbursement data

for only one financial year 2014/15 was analysed. It was noted that 50% of the disbursement requests by the Ministry were done long after the planned payment dates had elapsed with delays of between 27 and 90 days as illustrated in the **Table 7**. This ultimately resulted to overall delays in the cash transfers to beneficiaries.

**Table 7: Delay in Disbursement Requests by MOLSSS in 2014/15**

Payment cycle	Months	Planned date of requisition by the Ministry	Actual date of requisition by the Ministry	Delay in requisition by Ministry in days
1	July – August 2014	5 August 2014	7 November 2014	90
2	September – October 2014	5 October 2014	7 November 2014	30
3	November – December 2014	5 December 2014	7 November 2014	0
4	January – February 2015	1 February 2015	27 February 2015	27
5	March – April 2015	5 April 2015	23 March 2015	0
6	May – June 2015	1 June 2015	20 May 2015	0

Source: MOLSSS Data

- b) **Late disbursement of funds by the exchequer at the National Treasury to the Social Protection Headquarters.** The Programme’s Operational Manual provides an approximate period of ten days for the transfer of funds from the National Treasury to the Social Protection unit at the MOLSSS after requisition of cash transfer funds. Out of the six payment cycles analysed for the 2014/15 financial year, requisitions for 83% were processed and disbursed by National Treasury days after the designated time period. The delay periods were found to be between two and thirty days as shown in **Table 8**. Interviews conducted with officials from Department of Social Development and officers at the National Treasury indicated that delays in processing and disbursement of the OPCT funds at the National Treasury were attributed to inadequate financial resources at the exchequer as and when requested.

**Table 8: Delay in Disbursements Processing by National Treasury in 2014/15**

Payment Cycle	Months	Date of requisition by MOLSSS	Date of disbursements by National Treasury	Period taken in days	Delays in disbursement processing in days
1	July – August	7 November 2014	24 November 2014	17	7
2	September - October	7 November 2014	24 November 2014	17	7
3	November - December	7 November 2014	17 December 2014	40	30
4	January - February	27 February 2015	17 March 2015	20	10
5	March - April	23 March 2015	31 March 2015	7	0
6	May - June	20 May 2015	3 June 2015	12	2

Source: MOLSSS Data

- c) **Delay in processing of disbursements to the payment service provider by the Ministry.** As stated in the PSP agency agreement, the Ministry should remit the OPCT funds and payrolls to the payment service Provider (PSP) at least seven days before the commencement of the payment period. Examination of payment vouchers and funds transfer records maintained by the Department Social Development for the year 2014/15 revealed a delay of between one and twenty six days in the processing of disbursements to the PSP as shown in **Table 9** . It took a period of between five and thirty days after receipt of funds from National Treasury to make the transfers of funds to the PSP accounts yet it should only take 4 days according to the programme manual.

**Table 9: Delay in Disbursements Processing by MOLSSS**



Payment Cycle	Months	Date of Funds Disbursements by Treasury	Date of Funds Transfer to the PSP by MOLSSS	Period Taken (Days)	Deviation (Days)
1	July – August	24 <sup>th</sup> Nov. 2014	-	-	-
2	September - October	24 <sup>th</sup> Nov. 2014	-	-	-
3	November- December	17 <sup>th</sup> Dec. 2014	22 <sup>nd</sup> Dec. 2014	5	1
4	January - February	17 <sup>th</sup> March, 2015	17 <sup>th</sup> April, 2015	30	26
5	March - April	31 <sup>st</sup> March, 2015	-	-	-
6	May - June	3 <sup>rd</sup> June, 2015	19 <sup>th</sup> June, 2015	16	12

Source: Payment Vouchers

4.15 Officers at the Ministry partly attributed the delays in transfer of funds to inadequate human resources at the department. The effects of the delays in payments were:

- a) The OPCT beneficiaries have at times received one year backlog at once, of the payment of the cash transfers in arrears equivalent to Kshs. 24,000. Given that this program only targets the poor people in the society, planning for such huge amounts is difficult and reduces the value and importance of the bi-monthly transfer scheme. Another challenge associated with the delay is that information is not provided to beneficiaries as to when the funds would be received which make it difficult for beneficiaries to plan, budget or negotiate for services.
- b) Delays in payments, has led to the Ministry combining more than two cycles in payments. This has made implementation of the exit strategy difficult since it is pegged on non-collection of more than three consecutives payment cycles rather than Kshs. 12,000 as stated in the manual.

#### Existence of Dead Beneficiaries in the Payroll

4.16 As stated in paragraph 6.1.1 of the June 2013 cash transfer manual, if a beneficiary dies, they are exited from the programme and the household will stop receiving payments (after the benevolence payments have been collected, if applicable).The benevolence payment amount totals six months (currently Kshs 12,000.00) and is collected over three payment cycles. In instances where a beneficiary has been unable to collect a previous period's payment, and then passes away, the household member collecting the benevolence payment, will also collect the full amount owed to the beneficiary, e.g. Kshs 12,000 and the uncollected amount.

4.17 It should take 13 days to update dead beneficiaries in the management information system (MIS) from the time the county/sub-county coordinator submits the forms up to the

replacement of a new beneficiary. Analysis of seven sub counties reflected that it took up to twenty four months almost two years to remove dead beneficiaries from the Ministry's MIS as shown in **Table 10**. Hence OPCT beneficiaries who died between 2012 and 2014 still appeared in the payroll three years later as at July/August 2015.

**Table 10: Summary of Delay in Update of Dead Beneficiaries**

Sub- County	No. of dead beneficiaries still in the current payroll	Average Delay
Thika	17	3.5 Months
Kilifi North	8	5.8 Months
Nyeri Town	21	23.9 Months
Malindi	6	13.5 Months
Changamwe	39	7 Months
Nairobi East	8	2.5 Months
Kibwezi East	27	5 Months

Source: OAG Analysis of OPCT Payrolls

4.18 Delay in the update of the cash transfers' MIS led to the beneficiaries who are in the waiting list not being enrolled into the payroll. The various reasons as to why there had been delay in the updating details of dead beneficiaries in the OPCT's MIS were as follows:

- a) **Lack of monitoring by the county/sub-county coordinators** - For the programme to operate efficiently and to meet its objectives, monitoring of the program must be done so as to identify the gaps that are in the programme. Monitoring ensures that the deaths of the beneficiaries are captured and that they are exited from the program in time. When a beneficiary dies, the caregiver should report immediately to the County/Sub-county coordinator and provide a copy of the death certificate

and the ID of the deceased but they rarely do so. Due to lack of monitoring, 208 beneficiaries who had already died and the caregiver did not report continued to collect payments.

- b) **Late submissions of the payroll by the headquarters to County/Sub-county coordinators** for verification lead to no room for counterchecking or updating, hence a beneficiary who died is still in the payroll and the caregiver still collects the payments. Payrolls cannot be generated until the post-payment checks and reconciliations from the previous cycle have been completed, and the pre-payroll checks for the current cycle have been completed.
- c) **Errors in the MIS update-** Once the lists of dead beneficiaries in the programme have been updated in the MIS, their names should not appear again in the payroll. In some counties there were cases where beneficiaries who had been earlier exited in the payroll due to death had reappeared in the payroll
- d) **Non-timely action by the department.** When the County/Sub-county coordinator submits their lists to the headquarters on those who should be exited from the programme as a result of death, non-timely action is taken by the department in that you find people who died in 2012 - 2014 still appearing in the payroll of July/August 2015.

#### Roll over of OPCT beneficiary arrears

4.19 The Ministry's cash transfer manual states that OPCT payments that are not collected during a payment transfer window will roll over to the next payment cycle, enabling the beneficiary to collect a cumulative amount. Analysis of sampled 2012/2013 to 2015/16 OPCT payrolls revealed that only Kshs.22.6 Million was rolled over to the next cycle out of Kshs.23.7 Million of uncollected payments as shown in **Annexure 1**. The audit further noted that:

- a) **KCB as a PSP had a more timely and accurate roll over of arrears.** In January 2015 the Ministry sought the electronic services of KCB as a PSP. Analysis of January to August 2015 payrolls for the seven counties sampled revealed that there was over 90% rate of beneficiaries' roll over of arrears. The rollover of the remaining 10% arrears could not be adequately established since these beneficiaries affected details could not be found in the succeeding payrolls.

This is because KCB beneficiary payments are biometric and payments are in electronic file which automatically updates beneficiary payment details. Access of payments reports is in real-time to the bank and ministry officers at any given time. This ensured timely and accurate update of beneficiaries' arrears before generation of payrolls.

- b) **Beneficiary arrears was at times not rolled over by the PCK.** The Ministry used the Postal Corporation of Kenya (PCK) as the OPCT payment service provider until December 2014. OPCT payrolls for November 2012 to December 2015 were sampled and arrears roll - over rates were calculated and comparison made. It was discovered that only 5% (Kshs.84, 000) of the beneficiaries' total arrears of Kshs.1, 850,000 were rolled over to the next cycle when PCK was the PSP. Analysis of sampled PCK payrolls revealed Kshs.1, 766,000 of Kshs.1, 850,000 total beneficiaries' arrears was not rolled over to the next cycle. Out of the seven counties analysed, only Makueni and Kwale payrolls indicated roll over of beneficiaries' arrears of amount Kshs.84, 000.00. The positive roll over rates of these arrears was attributed to these PCK's timely and accurate preparation and submission of payments returns/reconciliation reports to the PCK Headquarters.

The other 5 counties (Nairobi, Kiambu, Nyeri, Kilifi and Mombasa) sampled payrolls indicated 0% rate of arrears roll over. This implied that in all uncollected amounts in payment cycle, no beneficiaries arrears was carried forward to the next cycle. This could be explained by inadequate pre-post payroll checks before generation of payrolls in the MIS due to long manual payment reporting process and shorter inter-cycle periods that barely allowed time for post payroll checks and submission of reports.

At times two payment cycles overlapped. For instance, July to August 2014 payment was done in beginning of December 2014, the September to December 2014 payment was done in this very month. This provided short time for the PCK's to prepare and submit July to August 2014 payment reconciliation reports that will inform the September to December 2014 payroll. Also from the interviews some PSP's in Kilifi and Mombasa did not submit the Sep-Dec 2014 copy of reconciliation reports to County's Social Development office.

For every Kshs 1 million disbursed almost Kshs 30,000.00 incurred as beneficiaries' arrears was not rolled over to the next cycle or paid to beneficiaries when PCK was PSP. Hence the programme might have lost money in terms of unpaid arrears. Probable estimated loss as shown in **Table 11**.

**Table 11: Estimated loss of arrears due to inadequate update of payrolls – PCK**

County	Sub-Counties Pay-rolls Kshs	Total Disbursement / Cycle Kshs	A m o u n t Paid Kshs	Total Ar-rears Kshs	Total Arrears	
					Arrears Not Rolled Over	A r r e a r s Rolled over
Nairobi	Kasarani	168,000	88,000	80,000	80,000	0
Kiambu	Thika (Madaraka PCK)	1,158,000	1,062,000	96,000	96,000	0
Nyeri	Nyeri Town	4,840,000	4,500,000	340,000	340,000	0
Makueni	Kibwezi East	2,270,000	2,210,000	60,000	40,000	20,000
	Kibwezi East	760,000	700,000	60,000	0	60,000
Kwale	Matuga PCK	1,460,000	1,456,000	4,000	0	4,000
	Matuga PCK	2,924,000	2,924,000	0	N/A	N/A
	Shimba Hills PCK	3,912,000	3,912,000	0	N/A	N/A
	Kwale PCK	1,956,000	1,956,000	0	N/A	N/A
	Kwale PCK	10,252,000	10,252,000	0	N/A	N/A
Kilifi	Malindi PCK	3,592,000	3,304,000	288,000	288,000	0
Mombasa	Changamwe PCK	4,000,000	3,848,000	152,000	152,000	0
<b>Totals</b>		37,292,000	36,212,000	1,080,000	996,000	84,000
<b>Ratio Parts</b>		1	0.97104	0.03	0.03	0.002
Average arrears & arrears not rolled over for every 1M disbursed		1,000,000	971,039	28,961	26,708	2,252

**Source:** OAG Analysis of PCK OPCT sampled payrolls from F/Y 2012/13 to December 2014

### Ministry did not notify the PSP on minimum service level agreement not adhered to

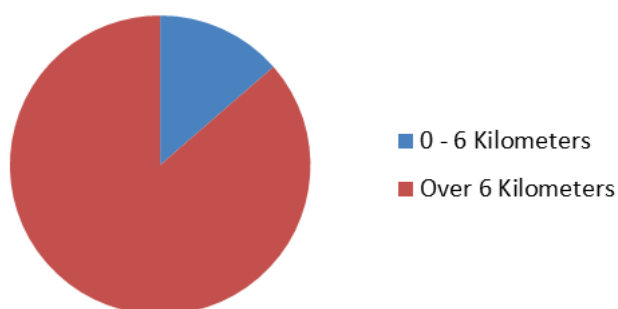
4.20 The Ministry and its current PSP (KCB) October 2014 agency agreement states that penalties are only charged after the PSP has been notified and given a chance to review the report and respond to the service level issue. The management of KCB aspired to serve all OPCT beneficiaries in an efficient manner. However, data generated from different KCB branches, sub – county offices and interviews conducted with sampled beneficiaries revealed that at times the beneficiaries experienced various challenges before and during the payment service delivery. The audit found that the Ministry was not effectively following up on

breaches on the minimum service level. There was also nothing to indicate that the Ministry had notified the PSP on the breaches to enable them respond and compensate the beneficiaries on the following issues:-

- a) **Beneficiaries travel inordinate long distances to PSP pay points:** The service level agreement imposed a penalty of Kshs. 500 per cycle for each beneficiary who travels beyond the designated 6 Km distance. The audit noted that 86% of the OPCT beneficiaries sampled were travelling more than the stipulated 6 Km

radius as shown in **Figure 4** yet had never been compensated. Out of the sampled 125 locations whose distances to the pay points were analyzed during the audit, beneficiaries from 107 locations (85.6%) travelled more than 6 kilometers to their pay points; KCB branches, PSP payment agents or mobile banking stations. The exceeded 6Km variance ranged from 0.5 Km to 217 Kms. The long distance travelled increased the OPCT beneficiaries' vulnerability to security threats, particularly when payment dates were announced publicly.

**Figure 4: Distance Travelled to Pay Points**



**Source:** OAG Analysis of county coordinators interviews

**b) Pay-point cash non availability:**

Information gathered from officers at various PSP branches indicate that the PSP had strived to achieve distance travelled to pay point requirement through its 'Mtaani' agents and mobile banking. The agency agreement states that the minimum service level for paying agents should be 12 hours per day with a penalty of Kshs 1,000 per visit on reported pay points. The audit found that, at times the payment agents arrangements were unreliable in making the cash transfer payments since they did not have adequate cash. Over 85% of the PSP payment agents in the sampled areas visited either no longer participated in the cash transfer program or made their payments within the PSP premises due to low transactional commissions paid by the PSP, high amount of capital requirements to make the huge payments, frequent cost of transport for travels to the bank for withdrawals, need for additional human resources, recruitment of security personnel and high exposure to security risks. None of the OPCT beneficiaries interviewed had been compensated for this breach.

**c) Delay in replacement of biometric cards:**

The Service Level Agreement between the Ministry and KCB limited (it's PSP) states

the duration of card replacement from the date of notification to the bank of lost or faulty cards to the time the card is replaced and delivered to the beneficiary should be 30 days otherwise a penalty of Kshs 50 is imposed to the PSP for each card delayed. The audit found that 62% of the biometric cards on the sampled counties visited took at least forty days to be delivered as shown in **Table 12**. Analysis of data availed by the PSP headquarters on reprinted cards showed that only 4 cards, 3 from Kilifi and 1 from Kiambu had taken more than 1 month to be printed from the date it was reported to the PSP headquarters. All the other 3,181 cards were printed within a week after it was reported to the headquarters by the PSP branches.

**Table 12: Delay in Card Replacement per County**

County	No. Of cards reprinted and delivered to beneficiaries	No. Of cards which took over 1 month to be reprinted	No. Of cards printed and delivered within 30 days	No. Of cards which took at least 40 days to be delivered
Nairobi	319	0	199	120
Kiambu	121	1	75	45
Kilifi	1391	3	543	845
Mombasa	85	0	25	60
Kwale	783	0	232	551
Makueni	419	0	122	297
Nyeri	67	0	13	54
<b>Total</b>	<b>3185</b>	<b>4</b>	<b>1209</b>	<b>1972</b>
<b>Percentage (%)</b>	<b>100</b>	<b>1%</b>	<b>37%</b>	<b>62%</b>

**Source:** OAG Analysis of KCB Card Replacement Data

Nationwide data on replacement availed by the PSP showed that 12,560 biometric cards were reprinted countrywide since the first payment by KCB in May 2015. A further 4,046 cards were printed and delivered to the beneficiaries within 30 days by 4 February 2016. Of these cards 5,727 took at least 40 days to be printed and delivered to the beneficiaries. 36 cards were printed at least 30 days after being reported to the headquarters as shown in the **Table 13**. Delays in both delivery and replacement of the biometric cards to the beneficiaries attracted a penalty of Kshs 50 per two months but this was never imposed to the PSP. Faulty biometric cards result to non-validation of finger prints during payments which may be attributed to their micro-

chips not working or the beneficiary details not having been correctly captured during the registration process.

**Table 13: Delay in Card Replacement Country wide**

	No. of cards re-printed and delivered to the beneficiaries	No. of cards which took over 1 month to be re-printed	No. of cards printed and delivered within 30 days	No. of cards which took at least 40 days to be delivered
<b>Country wide</b>	9,809	36	4,046	5,727
<b>P e r - centage</b>	100%	0.5%	41%	58.5%

Source: OAG Analysis of KCB Card Replacement Data

Delay in replacement of the biometric cards led to the affected beneficiaries not collecting their payments and if the delay lasted for a period of at least six months, the beneficiary faced a possibility of being exited from the program unfairly. This was because the beneficiaries needed to produce the cards in order to receive the payments and missing 3 consecutive cycles i.e. 6 months, led to automatic removal from the program by the MIS. Delays in card replacement were caused by delay in printing of the cards by PSP while delay in delivery was caused by lack of mobilization by the DSDO's to inform the beneficiaries that their cards were ready for collection.

- d) Enrolled beneficiaries were not issued with biometric payment cards:** The Payment Service Provider had a special obligation to biometrically register all the enrolled OPCT beneficiaries and provide them with payment cards. Biometric payment cards were to be delivered to beneficiaries by the PSP within 60 days on receipt of beneficiaries' list from the program headquarters. The PSP agency agreement provides for a penalty of Kshs 50 for each delayed card of two months. As at December 2015, the audit established that a total of 26,511 beneficiaries had not been issued with the biometric cards though they were enrolled in April 2015. Analysis of OPCT payrolls in the sampled eleven PSP branches established that a total of 2,444 beneficiaries were still uncarded and therefore could not access their cash transfers as shown in **Table 14**.

**Table 14: No. of uncarded beneficiaries per pay point**

County	Sub – County/ Pay - Point	No. of Uncarded Beneficiaries
Nairobi	Kasarani	124
	Jogoo Road	165
Kiambu	Kiambu	226
	Thika	266
	Kikuyu	153
Nyeri	Nyeri	336
Makueni	Kibwezi	58
Mombasa	Changamwe	83
Kilifi	Kilifi	345
	Mtwapa	47
	Malindi	348
Kwale	Kwale	293
<b>Total</b>		<b>2,444</b>

Source: OAG analysis of the PSP documents

- e) Faulty Payment Cards due to finger prints:** Beneficiaries who are enrolled into the OPCT Programme are provided with biometric payment cards which are accessed through finger prints which contain beneficiary's necessary details. These cards are printed, distributed and activated by the PSP monthly. The audit found that 10% of the faulty biometric payment cards were due to failure of the beneficiary fingerprints not being recognized as a verification system during payments. Finger print failures sometimes related to beneficiaries having very old or worn-down finger pads. The KCB agency agreement states that the PSP should replace and deliver to the beneficiary biometric payment cards, within thirty days on receipt of notification of faulty cards the PSP and imposes a penalty of Kshs 50 per delayed card per two months. The audit found that some beneficiaries were issued with faulty cards at the registration stage resulting to them not being able to access their cash transfers. Analysis of payrolls from 11 KCB branches showed that a total of 1,963 beneficiaries representing an average of 10 percent of the total beneficiary population, as shown in **Table 15**, had problems with their biometric payment cards due to finger prints.

**Table 15: Biometric Cards with Finger Print Issues**

Pay - Point	Total BPC Issued	No. of Faulty BPC	Percentage
Kasarani	1321	19	1%
Jogoo Road	969	118	12%
Kiambu	1341	37	3%
Thika	1254	38	3%
Kikuyu	1489	34	2%
Nyeri	1893	99	5%
Kibwezi	592	83	14%
Changamwe	1155	18	2%
Kilifi	3724	506	14%
Malindi	2901	639	22%
<b>Kwale</b>	<b>3071</b>	<b>325</b>	<b>11%</b>
<b>Total</b>	<b>19710</b>	<b>1,963</b>	<b>10%</b>

Source: OAG Analysis of KCB Payrolls

- f) **Uncarded beneficiaries.** By December 2015, the PSP had not yet issued biometric cards to 26,511 beneficiaries. By then the PSP had paid a total of three cycles amounting to Kshs 16,000 per beneficiary and these unpaid amounts had not been returned back to the exchequer even after their reconciliation. Therefore, an approximate amount of Kshs 424,176,000 had not been collected by these beneficiaries. This posed the risk of loss of the programme funds in event that the uncollected cards are used to enroll underserving beneficiaries into the program.

### Ministry's operational manual did not include provisions legislated by Parliament

- 4.21 In 25 January 2013 Parliament enacted the Social Assistance Act 2013 that established an Authority to be known as the National Social Assistance Authority. The functions of the Authority as stated in the Act included to identify and provide social assistance to persons in need of social assistance; advise the Minister responsible for matters relating to social development on the national policy to be adopted with regard to provision of social assistance; formulate and enforce standards for the conduct of social assistance programmes, develop, maintain and operate a national social assistance information management system and develop guidelines for implementation and monitoring and evaluation of social assistance programmes among others.
- 4.22 In May 2013 the Ministry was given the mandate of social assistance programs. In June 2013, the Ministry developed a cash transfer operations manual designed to help manage the cash

transfer programmes. The manual did not include the functions of the Authority in the OPCT's operational activities. The National Social Assistance Authority has not yet been established.

## Chapter 5

### 5.0 Conclusions

- 5.1 The programme has indeed made some remarkable achievements such as improved household food security, access to basic health care, increased self-esteem and dignity for the beneficiaries and stimulation to establishment of small scale income generating initiatives. The Ministry can manage the OPCT programme in a more effective way to ensure that it meets its intended objective of providing regular and predictable cash transfers that contribute to poverty reduction in households containing older people
- 5.2 As at 2016, the OPCT programme was operating in all constituencies; however, due to funding constraints coverage was not universal hence not all deserving people are enrolled in the program. Unpaid funds of almost Kshs 0.3 billion every two months were kept at a designated account by the PSP which is an opportunity loss of cash transfer benefits to almost 60,000 extra older persons.
- 5.3 The OPCT beneficiary households face a number service delivery challenges. These challenges have a negative effect on the quality and effectiveness of the Older Persons Cash Transfer Programme. The programme elements are not being implemented in a timely manner and service delivery to the OPCT beneficiaries was not adequate. The irregular and unpredictable payments is a major problem that affected performance of the Older Persons Cash Transfer programme. Delayed payments have a negative impact on the wellbeing and livelihood strategies of beneficiaries, threatening their achievements, undermining social safety net functions and, in some cases, worsening the economic security of these households. Breaches to the beneficiaries by the payment service provider were never compensated and beneficiaries continued to travel inordinately long distances to pay points, had faulty biometric payment cards experienced delays in replacement of cards. These challenges could easily have been resolved by having a mobile bank paying services to the beneficiaries.

## Chapter 6

### 6.0 Recommendations

- 6.1 In view of the findings and conclusions of the audit, the Auditor-General, proposes the following recommendations for implementation by the Ministry of East African Community, Labour and Social Protection:

#### **To ensure that targeting and enrolment is conducted in a more effective manner:**

- i) Ensure that stipulated targeting period is adhered to and vast counties and counties targeting a large number of beneficiaries are allocated sufficient resources
- ii) Ensure that replacement of beneficiaries is done as per laid down procedures
- iii) Put in place additional controls aimed at avoiding enrollment of persons outside the target group

#### **To improve payments service delivery to OPCT beneficiaries:**

- i) Carry out a review of the payment process to identify major bottlenecks in releasing payments on time
- ii) Improve the process for notifying beneficiaries on payment dates or of delays in order to enable them plan and minimize potential negative effects and to minimize the costs associated with unpaid beneficiaries
- iii) Enforce the stringent timelines that are given in the operational manual and make the requisition of funds from National Treasury earlier before months of payment
- iv) Ensure that there is an adequate system to ensure that unpaid funds are all accounted for
- v) Put in place controls to ensure funds are requested on time to allow for timely payments to beneficiaries
- vi) Have regular reconciliations to avoid overpayment of commissions

#### **To improve timeliness and accuracy of MIS update:**

- i) Carry out adequate and regular follow up on beneficiaries' eligibility status to the program, reasons for non-collection of payments etc.
- ii) Have a more effective way of getting information and updates of beneficiaries' status/issues that will inform the MIS and other key program decision making.

- iii) The County/Sub-county coordinators should liaise with ex-officials quarterly to visit households for information purposes to update the payroll to capture beneficiary deaths in their location in order to minimize delay in update of dead beneficiaries.

**To improve efficiencies in service delivery by the Payment Service Provider:**

- i) Develop special service delivery charter for the payment service provider detailing standards and timelines for delivery of cash transfer activities and processes
- ii) Establish mechanisms for monitoring, evaluating and reporting on performance of the PSP against the standards on a regular basis.
- iii) Monitor and enforce breaches on minimum service delivery agency agreement with KCB for all the already paid cycles
- iv) Address delays in provision of services by the PSP,
- v) Implement an integrated management information system that collects, records, stores, processes and shares information in support of all operational functions/processes and complaints mechanism between the program headquarters, KCB and field officers at the county and sub-county levels.
- vi) Ensure that the PSP at the County level liaises closely with the OPCT County coordinator to help in mobilizing the beneficiaries when the cards are ready for collection at the pay point and reduce the unnecessary delays.

**To have a more effective implementation of the OPCT programme:**

- i) Emphasize on a continuous engagement between County/Sub-County levels and locational levels to identify changes required
- ii) Conduct in-depth investigations on unpaid arrears due to insufficient update of payrolls to ascertain amounts involved and its whereabouts
- iii) Compensate beneficiaries as required based on breaches of payments and unpaid arrears



# Annexures

## Annexure 1: Update/Roll over of Arrears by PCK and KCB

ROLL OVER OF ARREARS –PCK								ROLL OVER OF ARREARS -KCB						
County	Cycles	Total Ar-rears / Cycle / Sub-County	A r - rears Rolled Over	%	No of Ben-With A r - rears	N o . Ben. A r - rears U p - dated	%	Cycle	Total Ar-rears	Ar-rears Rolled Over	%	No of Ben-With A r - rears	No. of Ben. A r - rears U p - dated	%
1.Nairobi	S e p / Dec14- J a n / Apr15	16,000	0	0	2	0	0	May/Jun Jul/Aug 2015	2,912,000	2,576,000	88	209	183	88
	S e p / Dec14- J a n / Apr15	80,000	0	0	10	0	0	Jan/Apr- M a y / Jun2015	1,528,000	1,644,000	93	130	141	92
2.Kiambu	Jul/Aug- S e p / Dec14	96,000	0	0	9	0	0	M a y / JunJul/ A u g 2015	2,616,000	2,240,000	86	159	174	91
	Jul/Aug- S e p / Dec14	754,000	0	0	126	0	0							
3.Nyeri	J u l / Oct13- N o v / Mar14	340,000	0	0	35	0	0	M a y / Jun-Jul/ A u g 2015	2,644,000	2,620,000	99	264	262	99
4.Makue-ni	F e b / Jun-Jul/ Aug14	60,000	20,000	33	2	6	33	M a y / Jun-Jul/ A u g 2015	556,000	504,000	91	47	44	94
	Nov13/ Mar14- A p r / Jun14	60,000	60,000	100	6	6	33							
5.Kwale	N o v / Dec12- J a n / Apr13	4,000	4,000	100	1	1	100	M a y / Jun-Jul/ A u g 2015	6,624,000	6,384,000	96	462	450	97
	S e p / Dec14- J a n / Apr15	0	N/A	N/A	0	N/A	0							
	N o v / Dec13- J a n / Apr14	0	0	-	-	-	-							
	Jul/Aug- S e p / Dec14	0	N/A	N/A	0	N/A	N/A							
6.Kilifi	S e p / Dec14- J a n / Apr15	288,000	0	0	39	0	0		6,052,000	5,940,000	98	426	421	99
7.M o m -basa	S e p / Dec14- J a n / Apr15	152,000	0	0	38	0	0	Jan/Apr- M a y / Jun2015	864,000	752,000	87	108	94	87
<b>Total / Summary</b>		<b>1,850,000</b>	<b>84,000</b>	<b>5</b>	<b>268</b>	<b>13</b>	<b>5</b>		<b>23,796,000</b>	<b>22,660,000</b>	<b>95</b>	<b>1805</b>	<b>1769</b>	<b>98</b>

Source: Analysis of sampled 2012/2013 to 2015/16 OPCT Payroll

**Annexure 2: Response on Audit Findings by the Ministry of East African Community, Labour and Social Protection – State Department for Social Protection**

Audit Findings	Responses from Management	Auditors Comments
<p><b>The OPCT program coverage has increased over the years</b></p> <p>OPCT program has seen the number of beneficiaries rise from 200 in 2007/2008 to 310 in 2015/2016 and the disbursement increase from Kshs 2.4 billion in 2007/08 to Kshs 7.3 billion in 2015/16. OPCT now covers all the 47 counties. The Ministry has 3 year expansion plan for 2014/2015 to 2016/2017</p>	<p>There is a three year expansion plan agreed between the Government of Kenya and World Bank as a national safety net programme that ends in 2018.</p>	<p>The expansion plan provided by the Ministry was developed in July 2014 for financial years 2014/2015 to 2016/2017.</p>
<p><b>Targeting and Enrolment</b></p>		
<p><b>a) Delay in Targeting Activities</b></p> <p>The duration of time to be taken for targeting and enrolment into the program should be 94 days. However, there was a delay of between 40 and 57 days above the stipulated targeting period in five sampled counties as at 29 January 2016 which meant that the program was not meeting its objective of regular and predictable payments</p>	<p>Actualizing targeting and enrolment is subject to availability of funds which is dependent on processing of Authority to Incur Expenditure. Targeting is moving from manual to electronic which shall be faster.</p>	<p>The Ministry agrees with the audit finding that there are delays in the targeting and enrolment processes and is in the process of addressing the problem.</p>
<p><b>b) Replacement of beneficiaries exited through death did not follow laid procedures.</b></p> <p>The objective is to contribute to poverty reduction in households containing older people through the provision of regular and predictable cash transfer. During field visits to the beneficiaries the audit found that there were dependents that were automatically enrolled upon death of a beneficiary.</p>	<p>Replacement of beneficiaries exited through death followed the laid down procedures for targeting and if in the deceased's household the conditions have not improved, the household is subjected to re-targeting alongside any other potential household. The focus still remains poverty and categorical vulnerability among others.</p>	<p>Replacement of beneficiaries exited through death was not done consistently as per the stated laid down procedures for targeting. In some cases deceased's household was not subjected to re-targeting alongside other potential households but instead the surviving spouse was directly enrolled in some areas. Thus the finding remains as reported.</p>
<p><b>c) Targeting and Enrollment of persons outside the target group</b></p> <p>The OPCT programme focuses on providing cash transfers to poor households who have at least one member above the age of 65 years. During field visits the audit found instances where persons below the age of 65 years and households that were not poor benefited from the program.</p>	<p>When the programme was being piloted, the focus was on vulnerability and poverty of the household. The age factor was introduced later. This way a few deserving but below age may have been introduced in the programme. In order to address this, the Department has conducted a recertification exercise where undeserving people are removed from the programme and replaced with the deserving ones.</p>	<p>The Ministry agrees with the finding that there were households which do not meet the eligibility criteria benefitting from the programme and is in the process of addressing the problem.</p>

<b>Payments to OPCT beneficiaries</b>		
<p><b>a) Increasing uncollected amounts by the beneficiaries</b></p> <p>Analysis of the OPCT payments reports, revealed that the rate of unpaid beneficiaries/amounts had been relatively increasing as more beneficiaries are enrolled to the program. This was due to failure to detect beneficiary finger prints, mis-routed cards, having deceased beneficiaries still in the payroll and long distance to the pay point were among reasons for non-collection of payments.</p>	<p>No response from the Ministry</p>	<p>The finding remains as reported.</p>
<p><b>b) Commission on unpaid beneficiaries</b></p> <p>Amounts associated with unpaid beneficiaries' burden the program and country on social economic costs. The PSP collects 2% commission based on the total amount disbursed to its account by the Ministry. When a beneficiary misses a payment and the funds are rolled over to the next payment cycle, PSP gets double commission when the arrears are paid.</p>	<p>The 2% commission that the PSP get as per the contract/ agreement has been a contentious issue. The matter was referred to the Attorney General for an advisory opinion and the AG did confirm that indeed the 2% commission payable to the PSP is legal.</p>	<p>The Ministry agrees with the audit finding.</p>
<p><b>c) Overpaid bank commissions</b></p> <p>Overpaid bank commissions to the PSP. Analysis of the 2% commission paid to the payment service provider (PSP) showed that the PSP had been overpaid in the January to April 2015 payment cycle. The PSP received Kshs. 1,284,264,000 from the Ministry payable to the beneficiaries and paid Kshs. 31,117,290 as commission instead of Kshs. 25,685,280 representing an overpayment of commission by Kshs. 5,432,010.</p>	<p>The recovery should not be expected in view of the AG's advisory mentioned above</p>	<p>The overpaid bank commissions are for a specific payment cycle and in contravention of the contract and should be recovered by the Ministry as soon as possible.</p>
<p><b>d) Delays in payments to beneficiaries</b></p> <p>Payments are to be made to beneficiaries on a bi-monthly basis. Out of the 21 payment cycles analysed, only 3 were made within the stipulated timelines. Delay in payments to the beneficiaries was caused by three key factors: late requisition of funds by the Ministry, late disbursement of funds by the National Treasury and delay in payment by the payment service provider.</p> <p>In 2014/2015, 50% of the disbursement request by the Ministry were done long after the planned payment dates had elapsed</p>	<p>There were delays in the release of the exchequers during that time.</p> <p>This is occasioned by delays in payments and receipts of reconciliations from PSP.</p>	<p>The Ministry agrees with the finding that there were delays in payments to beneficiaries.</p>
<b>Existence of Dead Beneficiaries in the Payroll</b>		

<p>It should take 13 days to update dead beneficiaries in the Management Information System (MIS) from the time the county/sub-county coordinator submits the forms up to the replacement of a new beneficiary. Analysis of seven sub counties revealed that it took between two and a half and 23 months to remove dead beneficiaries from the MIS. This led to the beneficiaries who were in the waiting list not being enrolled into the program.</p>	<p>The programme requires that information on any deceased beneficiaries be supported by documentation such as burial permit. Communication on this takes time to be submitted to the headquarters.</p> <p>Some caregivers of deceased households do not give reports of a beneficiary's death to continue benefitting themselves.</p> <p>The programme has strengthened the Beneficiary Welfare Committees and also using the local administration to ensure prompt reporting of deaths. A functional grievance and case management mechanism has been put in place.</p>	<p>The Ministry concur with the finding that there were delays in removing dead beneficiaries from the payroll. Even though they have tried to improve the situation by strengthening the Beneficiary Welfare Committee, more needs to be done to improve transparency of the deceased's household and the BWCs.</p>
<b>Roll over of OPCT beneficiary arrears</b>		
<p>Payments that are not collected during a payment transfer cycle should to be rolled over to the next cycle so that beneficiaries can collect cumulative payments</p> <p><b>KCB as a PSP had a more timely and accurate roll-over of arrears.</b></p> <p>Analysis of January to August 2015 payrolls for the seven counties sampled revealed that there was a rate of over 90% of beneficiaries' rollover of arrears. The rollover of the remaining 10% arrears could not be adequately established since these beneficiaries details could not be found in the succeeding payrolls.</p> <p><b>Beneficiary Arrears were at times not rolled over by the PCK</b></p> <p>It was discovered that only 5% (Kshs.84, 000) of the beneficiaries' total arrears of Kshs.1, 850,000 were rolled over to the next cycle when PCK was the PSP.</p>	<p>There is an outstanding arrears of Kshs. 169.3 Million with Postal Corporation of Kenya which is a previous PSP.</p>	<p>The Ministry agrees with the finding. The Ministry provided correspondence with PCK showing Kshs. 245,501,480 which was uncollected by the beneficiaries for three cash transfer programmes as at December 2014 which PCK was yet to refund to the Ministry. Kshs. 145,838,000 were arrears for the OPCT Programme.</p> <p>The Ministry has since then sourced for another PSP who has improved on rolling over uncollected payments but can still do better.</p>

<b>The Ministry did not notify the PSP on Minimum service level agreement not adhered to</b>		
Penalties were only to be charged after the PSP had been notified and given a chance to review the report and respond to the service level issue. The audit found that the Ministry was not effectively following up on breaches on the minimum service level agreement.	PSP is occasionally reminded of the adherence to the Service Level Agreement during and after every payments.	No correspondence between the Ministry and the PSP has been provided to the auditor of any notifications by the Ministry.
<b>Ministry`s operational manual did not include provisions legislated by Parliament</b>		
On 25 January 2013 Parliament enacted the Social Assistance Act 2013 that established the National Social Assistance Authority. In June 2013 the Ministry developed a cash transfer operations manual designed to help manage the cash transfer programs for older persons, persons with severe disability and urban food subsidy effectively. The Ministry`s cash transfer manual did not include the functions of the Authority in the OPCT`s operational activities. The National Social Assistance Authority has not been operational zed.	The National Social Assistance was never operationalized thus the authority not in place.	The Ministry agrees with the finding.
<b>Conclusions</b>		
<p>The Ministry can manage the OPCT programme in a more effective way to ensure that it meets its intended objective of providing regular and predictable cash transfers that contribute to poverty reduction in households containing older people.</p> <p>The OPCT beneficiary households face a number service delivery challenges which have a negative effect on the quality and effectiveness of the OPCT Program.</p> <p>The program elements are not being implemented in a timely manner and service delivery to the OPCT beneficiaries was not adequate. The irregular and unpredictable payment is a major problem that affected performance of the OPCT program. Delayed payments have a negative impact on the wellbeing and livelihood strategies of beneficiaries, threatening their achievements, undermining social safety net functions and in some cases, worsening the economic security of these households. Breaches to the beneficiaries by the payment service provider were never compensated and beneficiaries continued to travel inordinately long distances to pay points, had faulty biometric payment cards experienced delays in replacement of cards.</p>		No response from the Ministry

## **CONTACTS**

**Office of the Auditor-General**

**Address: P.O. Box 30084-00100, NAIROBI.**

**Telephone: +254 796 52 85 60**

**E-mail: [info@oagkenya.go.ke](mailto:info@oagkenya.go.ke)**

**Website: [www.oagkenya.go.ke](http://www.oagkenya.go.ke)**

 [@OAG\\_Kenya](https://twitter.com/OAG_Kenya)

 [Office of the Auditor-General Kenya](https://www.facebook.com/OfficeoftheAuditorGeneralKenya)