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Government Accountability Office

**Mission**: support congress and improve the performance & ensure accountability of the federal government

**Budget**: ~555 million

**Staff**: ~3,000

**Values**: Accountability, Integrity, Reliability
GAO and its auditors must maintain independence so that its opinions, findings, conclusions, judgments and recommendations will be impartial, and viewed as impartial by reasonable and informed third parties.

Independence is critical to maintaining the credibility of GAO and its auditors.
Leadership Independence

• GAO is led by the Comptroller General of the United States.
  • Joint selection/appointment involving the Congress and the President.
  • 15-year term.
• Current Comptroller General is Gene Dodaro.
  • Became the 8th Comptroller General in December 2010.
Individual Independence

- GAO’s staff at all levels are civil servants. None are political appointees.
- Staff continually review and affirm their independence.
- Staff annually disclose their financial interests to identify any potential impairments to independence.
GAO’s Work and Its Results

- auditing
- investigating
- reporting
- policy analyses
- legal decisions
- advising

- Congressional requests and mandates.
  - 96% of work in fiscal year 2017.
  - 739 requests and new mandates were received in fiscal year 2017.

- Comptroller General’s statutory authority
  - 4% of work in fiscal year 2017
Results of Work

• GAO issued 658 reports. Of those, 63% contained new recommendations.
• GAO testified 99 times before congressional committees and subcommittees.
• GAO’s achievements for fiscal year 2017 included
  • $73.9 billion in financial benefits – a $128 return on every dollar the Congress invested in GAO.
  • 1,280 other benefits, representing improvements to government operations.
  • 76% of past recommendations implemented.
GAO’s Forensic Audits and Investigative Service Team

• The Forensic Audits and Investigative Service (FAIS) team provides Congress with high-quality forensic audits and investigations and abuse; other special investigations; and security and vulnerability assessments.

• The team’s staff include:
  • analysts and auditors with forensic auditing experience, including data mining experts, and
  • criminal investigators with years of law enforcement experience at executive branch agencies.
  • Many are Certified Fraud Examiners.

• The team also operates FraudNet, a hotline for reporting suspected fraud, waste, and abuse involving federal funds.
POLLING QUESTION #1

How familiar are you with GAO’s Fraud Risk Management Framework?

A. The what? This is the first I have heard of it.
B. I have heard of it and can’t wait to learn more about it today!
C. I have practically committed it to memory.
GAO’s Fraud Risk Framework
What is GAO’s Fraud Risk Framework?

- The Framework
  - provides guidance to aid federal program managers in strategically managing fraud risks, and
  - describes leading practices and conceptualizes these practices into a risk-based framework.
- Effective fraud risk management helps to ensure that federal programs’ services fulfill their intended purpose, funds are spent effectively, and assets are safeguarded.
What is Fraud? How does it Differ from Fraud Risk?

• **Fraud** involves obtaining something of value through willful misrepresentation. Whether an act is in fact fraud is a determination to be made through the judicial or other adjudicative system.

• **Fraud risk** is a broader concept that includes potential events and vulnerabilities.

• Fraud is something that *has happened*, while fraud risk is something that *could happen*.
Why Did GAO Develop The Framework?

- Fraud poses a significant risk to the integrity of federal programs and erodes public trust in government.
  - Fraud can be financial as well as nonfinancial (e.g., immigration fraud), and it is difficult to measure fraud in a reliable way.
- Based on FAIS’s prior reviews, the team saw a need for federal managers to take a more strategic, risk-based approach to managing fraud risks.
- Coincided with the 2014 issuance of the revised *Standards for Internal Control in the Federal Government*.
  - Contains an explicit requirement that federal managers “consider the potential for fraud when identifying, analyzing, and responding to risks.” (Principle 8)
POLLING QUESTION #2

What is the rate of fraud in federal programs?

A. Less than 1 percent.
B. About 5 percent.
C. Between 5 and 10 percent.
D. Greater than 10 percent.
Why is a Fraud Risk Framework Important?

Implementation risks in federal operations may lead to inefficient or improper spending or foregone revenues.

Programs with the Highest Reported Amounts of Improper Payments in Fiscal Year 2014:

- Unemployment Insurance: $5.6 billion
- Medicare Advantage (Part C): $12.2 billion
- Medicaid: $17.5 billion
- Earned Income Tax Credit: $17.7 billion
- Medicare Fee-for-Service: $45.8 billion

Source: GAO summary of agency data.
Do Federal Agencies Have to Follow the Framework?

On June 30, 2016, the President signed the **Fraud Reduction and Data Analytics Act of 2015** into law.

- OMB is to establish guidelines for agencies to establish financial and administrative controls to identify and assess fraud risks and design and implement control activities to prevent, detect, and respond to fraud. Guidelines are to incorporate the leading practices identified in GAO’s Fraud Risk Framework.
How Did GAO Develop the Framework?

- To develop the Framework, GAO
  - conducted three focus groups with antifraud professionals;
  - interviewed eight federal Offices of Inspector General, three national audit institutions, the World Bank, the Organisation for Economic Co-Operation and Development, and antifraud experts representing private companies, state and local audit associations, and nonprofit entities;
  - conducted an extensive literature review; and
  - independently validated leading practices from federal program officials.
Overview of GAO’s Fraud Risk Framework
What are the Parts of the Fraud Risk Framework?

- Principles
- Components
- Environmental factors
- Monitoring and feedback
Principles: Why These Control Activities?

- Prevent
- Detect
- Respond
Principles: Examples of Control Activities

Figure 7: Examples of Controls and Activities to Prevent, Detect, and Respond to Fraud

Mitigate the risk of fraud occurring
- Antifraud strategy
- Employee background checks
- Fraud awareness trainings
- System edit checks
- Data matching to verify eligibility
- Predictive analytics
- Segregation of duties
- Standards of conduct
- Transaction limits

Discover potential fraud that has already occurred
- Audits
- Data matching after payments have been made
- Data mining
- Document reviews
- Hotlines and other reporting mechanisms
- Site visits

Investigate potential fraud, take corrective actions, and remedy the harm caused by fraud
- Investigations
- Prosecutions
- Disciplinary actions
- Suspensions and debarments
- Payment recoveries

Source: GAO | GAO-15-081SP
What Are the 4 Components of the Framework?

- **Commit**: Commit to combating fraud by creating an organizational culture and structure conducive to fraud risk management.
- **Assess**: Plan regular fraud risk assessments and assess risks to determine a fraud risk profile.
- **Evaluate and Adapt**: Evaluate outcomes using a risk-based approach and adapt activities to improve fraud risk management.
- **Design and Implement**: Design and implement a strategy with specific control activities to mitigate assessed fraud risks and collaborate to help ensure effective implementation.
The 4 Components of the Framework

- **Commit**: Commit to combating fraud by creating an organizational culture and structure conducive to fraud risk management.

- **Assess**: Plan regular fraud risk assessments and assess risks to determine a fraud risk profile.

- **Design and Implement**: Design and implement a strategy with specific control activities to mitigate assessed fraud risks and collaborate to help ensure effective implementation.

- **Evaluate and Adapt**: Evaluate outcomes using a risk-based approach and adapt activities to improve fraud risk management.
POLLING QUESTION #3

Which principle of fraud risk management is federal managers’ primary area of responsibility?

A. Preventing fraud from occurring.
B. Identifying and detecting potential fraud.
C. Investigating, prosecuting, or responding to identified fraud.
D. None. The Office of the Inspector General and law enforcement are responsible for managing fraud.
Commit: Commit to combating fraud by creating an organizational culture and structure conducive to fraud risk management.

- **Overarching Concepts:**
  - 1.1 Create an Organizational Culture to Combat Fraud at All Levels of the Agency
  - 1.2 Create a Structure with a Dedicated Entity to Lead Fraud Risk Management Activities
Commit

1.1 Create an Organizational Culture to Combat Fraud at All Levels of the Agency

- Demonstrate a senior-level commitment to integrity and combating fraud.
- Involve all levels of the agency in setting an antifraud tone that permeates the organizational culture.

1.2 Create a Structure with a Dedicated Entity to Lead Fraud Risk Management Activities

- Designate an entity to design and oversee fraud risk management activities that:
  - understands the program and its operations, as well as the fraud risks and controls throughout the program;³
  - has defined responsibilities and the necessary authority across the program;
  - has a direct reporting line to senior-level managers within the agency; and
  - is located within the agency and not the Office of Inspector General (OIG), so the latter can retain its independence to serve its oversight role.

- In carrying out its role, the antifraud entity, among other things:
  - serves as the repository of knowledge on fraud risks and controls;
  - manages the fraud risk-assessment process;
  - leads or assists with trainings and other fraud-awareness activities; and
  - coordinates antifraud initiatives across the program.
Assess: Plan regular fraud risk assessments and assess risks to determine a fraud risk profile.

- **Overarching Concepts:**
  - 2.1 Plan Regular Fraud Risk Assessments That Are Tailored to the Program
  - 2.2 Identify and Assess Risks to Determine the Program’s Fraud Risk Profile
2.1 Plan Regular Fraud Risk Assessments That Are Tailored to the Program

Tailor the fraud risk assessment to the program.

Plan to conduct fraud risk assessments at regular intervals and when there are changes to the program or operating environment, as assessing fraud risks is an iterative process.

Identify specific tools, methods, and sources for gathering information about fraud risks, including data on fraud schemes and trends from monitoring and detection activities.

Involve relevant stakeholders in the assessment process, including individuals responsible for the design and implementation of fraud controls.

2.2 Identify and Assess Risks to Determine the Program’s Fraud Risk Profile

Identify inherent fraud risks affecting the program.

Assess the likelihood and impact of inherent fraud risks.
- Involve qualified specialists, such as statisticians and subject-matter experts, to contribute expertise and guidance when employing techniques like analyzing statistically valid samples to estimate fraud losses and frequency.
- Consider the nonfinancial impact of fraud risks, including impact on reputation and compliance with laws, regulations, and standards.

Determine fraud risk tolerance.

Examine the suitability of existing fraud controls and prioritize residual fraud risks.

Document the program’s fraud risk profile.
How Can Managers Assess Fraud Risks?

- **Identify** fraud risks and **assess** their likelihood and impact.

- **Determine** fraud risk tolerance, and **examine** existing fraud controls.

- **Document** the program’s **fraud risk profile**, including risk tolerance, prioritization of risks, and other key findings and conclusions.
Design and Implement: Design and implement a strategy with specific control activities to mitigate assessed fraud risks and collaborate to help ensure effective implementation.

- **Overarching Concepts**
  - 3.1 Determine Risk Responses and Document an Antifraud Strategy Based on the Fraud Risk Profile
  - 3.2 Design and Implement Specific Control Activities to Prevent and Detect Fraud
  - 3.3 Develop a Plan Outlining How the Program Will Respond to Identified Instances of Fraud
  - 3.4 Establish Collaborative Relationships with Stakeholders and Create Incentives to Help Ensure Effective Implementation of the Antifraud Strategy
3.1 Determine Risk Responses and Document an Antifraud Strategy Based on the Fraud Risk Profile

Use the fraud risk profile to help decide how to allocate resources to respond to residual fraud risks.

Develop, document, and communicate an antifraud strategy to employees and stakeholders that describes the program’s activities for preventing, detecting, and responding to fraud, as well as monitoring and evaluation.

Establish roles and responsibilities of those involved in fraud risk management activities, such as the antifraud entity and external parties responsible for fraud controls, and communicate the role of the Office of Inspector General (OIG) to investigate potential fraud.

Create timelines for implementing fraud risk management activities, as appropriate, including monitoring and evaluations.

Demonstrate links to the highest internal and external residual fraud risks outlined in the fraud risk profile.

Link antifraud efforts to other risk management activities, if any.

3.2 Design and Implement Specific Control Activities to Prevent and Detect Fraud

Focus on fraud prevention over detection and response to avoid a “pay-and-chase” model, to the extent possible.

Consider the benefits and costs of control activities to address identified residual risks.

Design and implement the following control activities to prevent and detect fraud:*  
- data-analytics activities,  
- fraud-awareness initiatives,  
- reporting mechanisms, and  
- employee-integrity activities.
| **Who** is responsible for fraud risk management activities? | Establish roles and responsibilities of those involved in fraud risk management activities, such as the antifraud entity and external parties responsible for fraud controls, and communicate the role of the Office of Inspector General (OIG) to investigate potential fraud. |
| **What** is the program doing to manage fraud risks? | Describe the program's activities for preventing, detecting, and responding to fraud, as well as monitoring and evaluation. |
| **When** is the program implementing fraud risk management activities? | Create timelines for implementing fraud risk management activities, as appropriate, including monitoring and evaluations. |
| **Where** is the program focusing its fraud risk management activities? | Demonstrate links to the highest internal and external residual fraud risks outlined in the fraud risk profile. |
| **Why** is fraud risk management important? | Communicate the antifraud strategy to employees and other stakeholders, and link antifraud efforts to other risk management activities, if any. |

Source: GAO | GAO-15-593SP
3.3 Develop a Plan Outlining How the Program Will Respond to Identified Instances of Fraud

- Develop a plan outlining how the program will respond to identified instances of fraud and ensure the response is prompt and consistently applied.
- Refer instances of potential fraud to the OIG or other appropriate parties, such as law-enforcement entities or the Department of Justice, for further investigation.

3.4 Establish Collaborative Relationships with Stakeholders and Create Incentives to Help Ensure Effective Implementation of the Antifraud Strategy

- Establish collaborative relationships with internal and external stakeholders, including other offices within the agency; federal, state, and local agencies; private-sector partners; law-enforcement entities; and entities responsible for control activities to, among other things,
  - share information on fraud risks and emerging fraud schemes, and
  - share lessons learned related to fraud control activities.
- Collaborate and communicate with the OIG to improve understanding of fraud risks and align efforts to address fraud.
- Create incentives for employees to manage risks and report fraud, including
  - creating performance metrics that assess fraud risk management efforts and employee integrity, particularly for managers; and
  - balancing fraud-specific performance metrics with other metrics related to employees’ duties.
- Provide guidance and other support and create incentives to help external parties, including contractors, effectively carry out fraud risk management activities.
Evaluate and Adapt: Evaluate outcomes using a risk-based approach and adapt activities to improve fraud risk management.

• Overarching Components
  • 4.1 Conduct Risk-Based Monitoring and Evaluate All Components of the Fraud Risk Management Framework
  • 4.2 Monitor and Evaluate Fraud Risk Management Activities with a Focus on Measuring Outcomes
  • 4.3 Adapt Fraud Risk Management Activities and Communicate the Results of Monitoring and Evaluations
Evaluate and Adapt

### 4.1 Conduct Risk-Based Monitoring and Evaluate All Components of the Fraud Risk Management Framework

Monitor and evaluate the effectiveness of preventive activities, including fraud risk assessments and the anti-fraud strategy, as well as controls to detect fraud and response efforts.

Collect and analyze data, including data from reporting mechanisms and instances of detected fraud, for real-time monitoring of fraud trends and identification of potential control deficiencies.

Employ a risk-based approach to monitoring by taking into account internal and external factors that can influence the control environment, such as organizational changes and emerging risks.

Engage stakeholders responsible for specific fraud risk management activities in the monitoring and evaluation process.

### 4.2 Monitor and Evaluate Fraud Risk Management Activities with a Focus on Measuring Outcomes

Measure outcomes, in addition to outputs, of fraud risk management activities.

In the absence of sufficient data, assess how well managers follow recommended “leading practices” for designing fraud risk management activities.

### 4.3 Adapt Fraud Risk Management Activities and Communicate the Results of Monitoring and Evaluations

Use the results of monitoring and evaluations to improve the design and implementation of fraud risk management activities.

Use analysis of identified instances of fraud and fraud trends to improve fraud risk management activities, including prioritizing and taking corrective actions, as well as enhancing fraud-awareness trainings.

Use results of investigations and prosecutions to enhance fraud prevention and detection.

Communicate results of monitoring and evaluations, including corrective actions taken, if any, to relevant stakeholders.
The Outer Circle

- Environment
- Monitoring and Feedback
POLLING QUESTION #4

Who can use the fraud risk framework?

A. Federal managers
B. Managers of state, local, and foreign government agencies,
C. Managers of nonprofit entities
D. Auditors
E. All of the above
Who Can Use the Framework?

• The Framework’s leading practices serve as a guide for federal program managers to use when developing or enhancing efforts to combat fraud in a strategic, risk-based manner.
  • Managers can use the Framework to help implement Principle 8 of Standards for Internal Control in the Federal Government – “Assess Fraud Risks.”
  • Managers can tailor the Framework to their programs’ operations and environment, including existing risk management efforts.
  • Fraud risk management is an iterative process. Managers may focus on one or two components to start. Over time, as the fraud risk management program evolves, managers will be more likely to effectively address all key elements.
How Can Others Use the Framework?

• Managers of state, local, and foreign government agencies, as well as managers of nonprofit entities, may find the Framework’s concepts and practices useful for their fraud risk management efforts.

• Auditors can use the Framework to help assess managers’ fraud risk management efforts.
  • Internal and external auditors can evaluate the effectiveness of agency fraud risk management efforts and make recommendations to enhance those efforts using the Framework as a basis.
Questions?
