



Trends in Risk Management: GAO's Fraud Risk Management Framework

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Why Did GAO Develop the Framework?

- Fraud poses a significant risk to the integrity of federal programs and erodes public trust in government.
- Based on our prior reviews, we saw a need for federal managers to take a more strategic, risk-based approach to managing fraud risks.
- Effective fraud risk management helps to ensure that federal programs' services fulfill their intended purpose, funds are spent effectively, and assets are safeguarded.

How Did GAO Develop the Framework?

- To develop the Framework, we
 - 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
 - sought input from federal program officials to independently **validate** leading practices.



How Does the Framework Relate to Existing Federal Efforts to Combat Fraud?

- The Framework complements existing federal efforts, including
 - the revised *Standards for Internal Control in the Federal Government* (effective Oct. 1, 2015);
 - improper-payments legislation; and
 - Office of Management and Budget guidance on improper payments (OMB A-123).
- However, the Framework is fraud-specific and applies to nonfinancial, as well as financial, fraud risks.

Who Can Use the Framework?

- **Federal program managers** can use the Framework’s leading practices to
 - develop or enhance efforts to combat fraud in a strategic, risk-based manner, and
 - help implement Principle 8 of *Standards for Internal Control in the Federal Government*—“Assess Fraud Risks.”
- **Auditors** can use the Framework to help assess managers’ fraud risk management efforts.
- **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.

The Fraud Risk Management Framework



The Framework

- encompasses control activities to **prevent, detect, and respond** to fraud, with an emphasis on prevention;
- recognizes **environmental factors** that influence or help managers achieve their objective to mitigate fraud risks; and
- highlights the importance of **monitoring and incorporating feedback**.

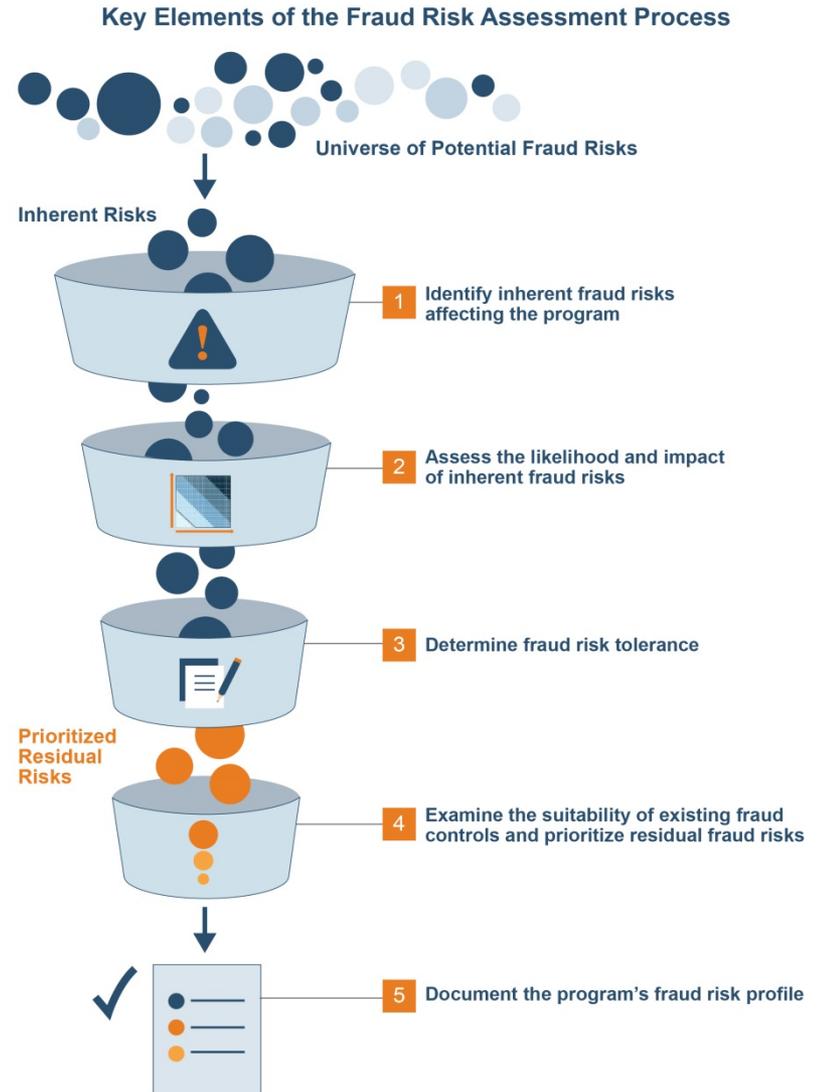
What Are the Components of the Framework?

- **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.



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.



Next Steps

- Federal program managers can begin using the Framework immediately to develop or improve fraud risk management efforts.
- However, 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.
- 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?

- For further information:
 - *A Framework for Managing Fraud Risks in Federal Programs* is available online at: <http://www.gao.gov/products/GAO-15-593SP>.
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