



---

# Using GAO's Fraud Risk Management Framework

---

**Mountain and Plains Intergovernmental Audit Forum  
September 2, 2015**

**Stephen M. Lord**  
Managing Director, Forensic Audits and Investigative Service (FAIS)  
and  
**Linda S. Miller**  
Assistant Director, Homeland Security and Justice (HSJ)  
U.S. Government Accountability Office

---

---

## Why Is Fraud Risk Management Important?

---

- 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., passport fraud), and it is difficult to measure fraud in a reliable way.
- 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
  - independently **validated** leading practices from federal program officials.

# 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.



## What Are the Components of the Framework? (continued)

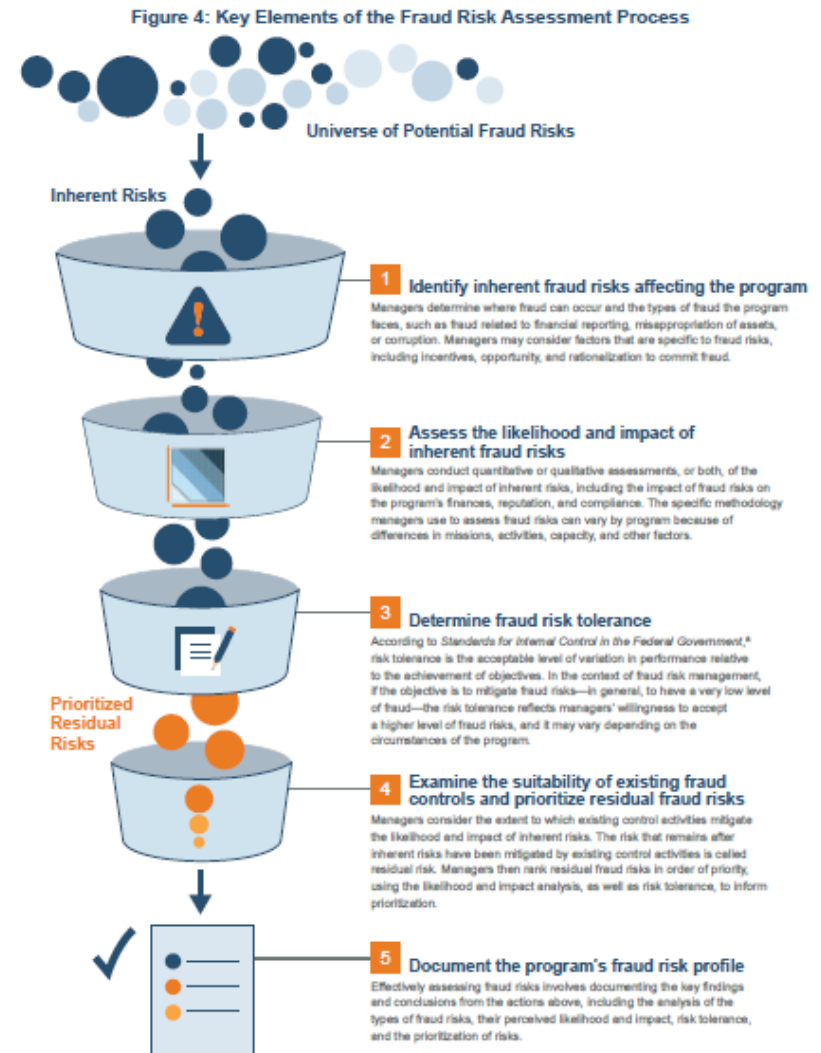
---

- **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.



Source: GAO. | GAO-15-582P

<sup>a</sup>GAO, *Standards for Internal Control in the Federal Government*, OIG-14-704G (Washington, D.C.: Sept. 10, 2014), 6.08.

## What Are the Components of the Framework? (continued)

---

- **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.





## What Are the Components of the Framework? (continued)

---

- **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.



---

## 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.

---

## How Can Others Use the Framework?

---

- **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.

---

# 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.

## 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>.
  - Contact:

**Stephen M. Lord**  
(202) 512-6722  
[lords@gao.gov](mailto:lords@gao.gov)

**Linda S. Miller**  
(202) 512-6124  
[millerls@gao.gov](mailto:millerls@gao.gov)



---

## **GAO on the Web**

Web site: <http://www.gao.gov/>

## **Congressional Relations**

Katherine Siggerud, Managing Director, [siggerudk@gao.gov](mailto:siggerudk@gao.gov)  
(202) 512-4400, U.S. Government Accountability Office  
441 G Street, NW, Room 7125, Washington, DC 20548

## **Public Affairs**

Chuck Young, Managing Director, [youngc1@gao.gov](mailto:youngc1@gao.gov)  
(202) 512-4800, U.S. Government Accountability Office  
441 G Street, NW, Room 7149, Washington, DC 20548

## **Copyright**

This is a work of the U.S. government and is not subject to copyright protection in the United States. The published product may be reproduced and distributed in its entirety without further permission from GAO. However, because this work may contain copyrighted images or other material, permission from the copyright holder may be necessary if you wish to reproduce this material separately.

---