



FRAUD RISK IDENTIFICATION AND MITIGATION



Presentation Objectives

This presentation will discuss how to evaluate individual programs to determine their susceptibility to fraud, data mining and matching methodologies, identification of data anomalies, identification of fraud indicators, proper use of terminology to define results, and fraud mitigation techniques

Definition: Fraud

Fraudulent activity is the attempt to obtain something of value through willful misrepresentation of information

Types of Fraud

- Contract Fraud
- Grant Fraud
- Anti-Trust
- Bid Rigging
- Product Substitution
- Subsistence Fraud
- Healthcare Fraud
- Cost Mischarging
- Time and Attendance Fraud
- False Statements / False Claims

Definition: Fraud Risk

The susceptibility of funds, programs, facilities, or systems to risk of fraudulent activity via the identification, detection, analysis, evaluation of ineffective or inefficient policies, procedures, regulations, laws, and/or training

What word is missing?

Fraud Risk Facts

- Risks are inherent to all programs
- Risks can be managed but not completely eliminated
- Fraud risks are program specific
- Risk management tools and techniques are based on type of good and service
- Risks should be known and prioritized

Risk Detection

Fraud Risk Detection Methods

Reactive

- Fraudulent Activity
- Ongoing Investigations
- Systems Failures
- Intrusions and Incursions

Proactive

- Policy, Procedure, and systems analysis
- Data Matching and Mining
- Historical Investigations
- Vulnerability Assessments
- Controls Testing

Investigations

- Any proactive or reactive inquiry conducted into allegations of suspected criminal offenses or serious wrongdoing, including allegations of fraud, waste, abuse, or mismanagement within a federally funded program, system, or facility.

Vulnerability Assessment

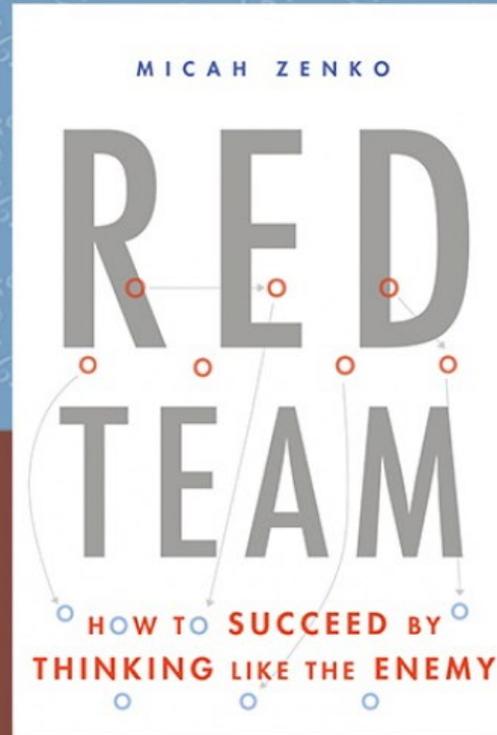
- A covert or overt assessment of known and unknown security issues within government systems, structures, and facilities to prevent, detect, and deter intrusions. A vulnerability assessment can identify the potential effectiveness of proposed countermeasures.

Controls Testing

- The employment of covert investigative techniques, tools, and methodologies to test the activities within known or defined control structures of a government program, system, or facility to determine their relative efficiency and effectiveness in preventing, detecting, and deterring fraud, waste, abuse, and mismanagement.

Controls

“The US Government Accountability Office's Office of Special Investigations (OSI) conducts "black box" vulnerability probes of government processes, facilities, or borders - just about anything that receives federal funds - under the direction of the comptroller general of the United States. These types of probes are carried out only with publicly available information, in order to emulate what a relatively motivated and competent adversary who lacked an insider accomplice would be able to learn. The OSI's director Wayne McElrath, noted that "using insider info would be cheating the whole purpose of an investigation.”



External Controls

- Public Notification
- Well Defined Program Rules
- Formal Entry Points
- Well Defined Outputs
- Use of Data Matching and Mining

Internal Controls

- Dedicated Staff
- Sufficient and Appropriate Training
- Segmented Duties
- Multiple Levels and Layers of Review
- Regular Audits
- Periodic background investigations

Risk Management Culture

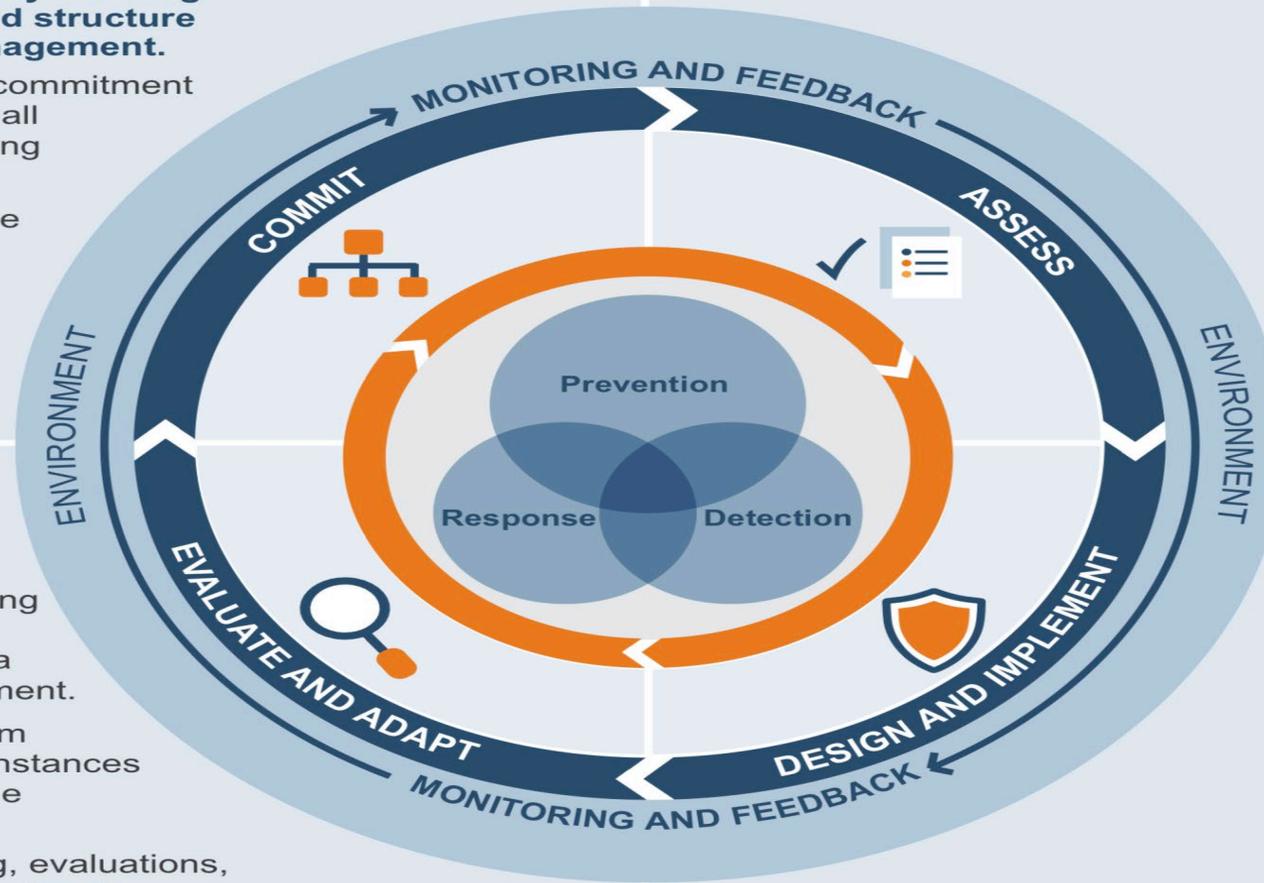
The Fraud Risk Management Framework and Selected Leading Practices

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

- Demonstrate a senior-level commitment to combat fraud and involve all levels of the program in setting an antifraud tone.
- Designate an entity within the program office to lead fraud risk management activities.
- Ensure the entity has defined responsibilities and the necessary authority to serve its role.

Evaluate outcomes using a risk-based approach and adapt activities to improve fraud risk management.

- Conduct risk-based monitoring and evaluation of fraud risk management activities with a focus on outcome measurement.
- Collect and analyze data from reporting mechanisms and instances of detected fraud for real-time monitoring of fraud trends.
- Use the results of monitoring, evaluations, and investigations to improve fraud prevention, detection, and response.



Plan regular fraud risk assessments and assess risks to determine a fraud risk profile.

- Tailor the fraud risk assessment to the program, and involve relevant stakeholders.
- Assess the likelihood and impact of fraud risks and determine risk tolerance.
- Examine the suitability of existing controls, prioritize residual risks, and document a fraud risk profile.

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

- Develop, document, and communicate an antifraud strategy, focusing on preventive control activities.
- Consider the benefits and costs of controls to prevent and detect potential fraud, and develop a fraud response plan.
- Establish collaborative relationships with stakeholders and create incentives to help ensure effective implementation of the antifraud strategy.

Source: GAO. | GAO-15-593SP

Developing a Risk Aware Culture

Bifurcated Culture

- Auditors
- Investigators
- Program Personnel
- Client Surveys

Dual Mission

- Separate Standards
- Collaborative Environment
- Data Evaluation Techniques
- Data Usage

Hybrid Products: Audits / Investigations

Audits	Investigations
Generally Accepted Government Auditing Standards	CIGIE's Quality Standards for Investigations
GAO's Quality Assurance Framework	Special Agent Manual and most elements of GAO's Quality Assurance Framework



Hybrid Approach

- Scope and Methodology
- Incorporate Investigative Tools and Techniques
- Selection Criteria
- Case Studies (Illustrative or Generalizable)
- Legal Review

Results

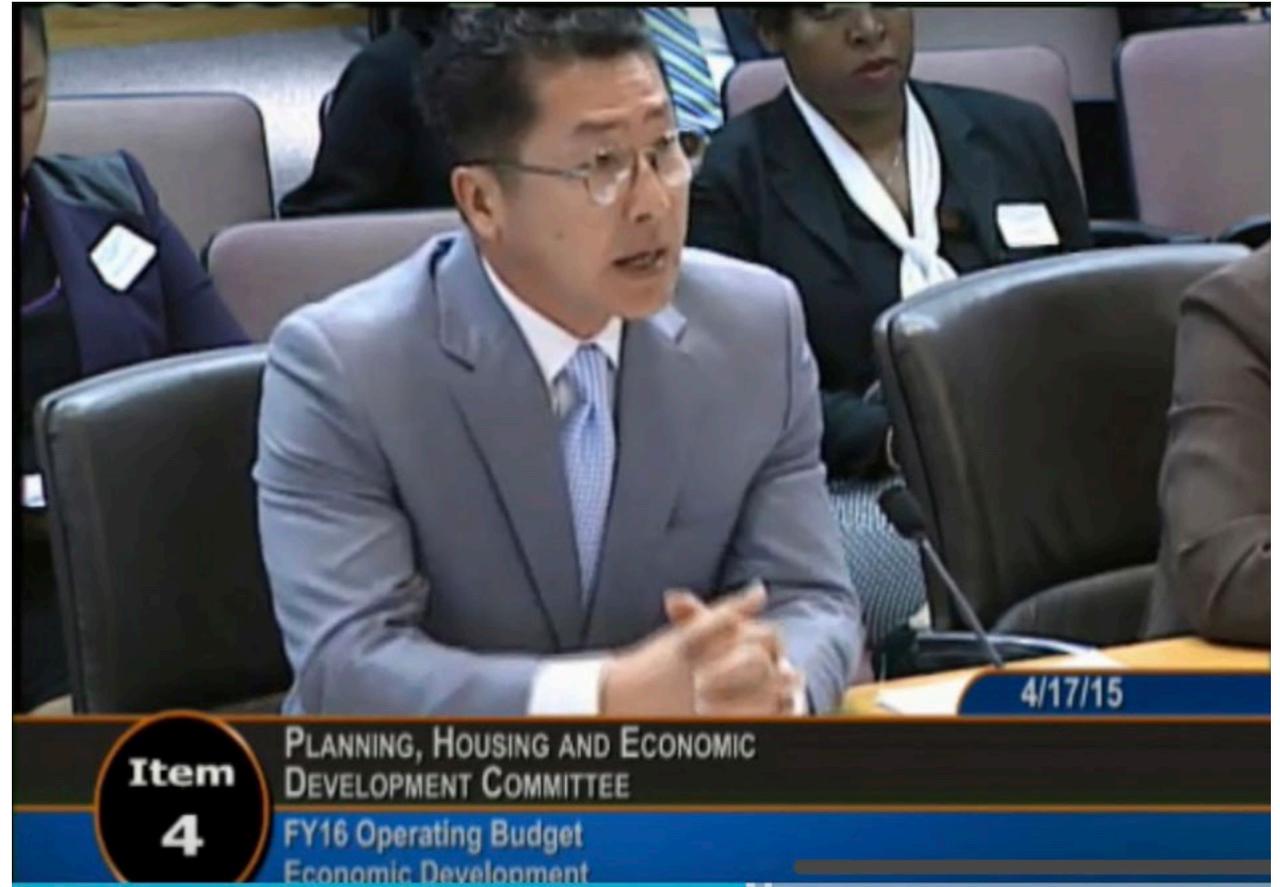
- Superior Evidence (Sufficient and Appropriate)
- More Interesting Reports
- More Impactful Findings and Recommendations
- Increased Stakeholder Engagement

Case Studies

Fake invoices and gambling debts: How a county bureaucrat stole \$6.7 million

Peter Bang

- Chief Operating Officer
- County Department of Economic Development
- Rockville, Maryland
- \$6.7 million in fraud
- Over the course of 5 years



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United States Government Accountability Office

Testimony
Before the Committee on Finance,
U.S. Senate

For Release on Delivery
Expected at 10:00 a.m. EDT
Tuesday, April 8, 2014

PAID TAX RETURN PREPARERS

In a Limited Study,
Preparers Made
Significant Errors

Statement of James R. McTigue, Jr., Director
Strategic Issues



Investigations

- Any proactive or reactive inquiry conducted by FAIS special agents into allegations of suspected criminal offenses or serious wrongdoing, including allegations of fraud, waste, abuse, or mismanagement within a federally funded program, system, or facility.



United States Government Accountability Office

Report to Congressional Requesters

May 2019

SCHOOL MEALS PROGRAMS

USDA Has Reported
Taking Some Steps to
Reduce Improper
Payments but Should



Vulnerability Assessments

- A covert or overt assessment of known and unknown security issues within government systems, structures, and facilities to prevent, detect, and deter intrusions. A vulnerability assessment can identify the potential effectiveness of proposed countermeasures.



United States Government Accountability Office

Report to Congressional Requesters

October 2017

PHYSICAL SECURITY

NIST and Commerce Need to Complete Efforts to Address Persistent Challenges



Risk Mitigation

Managing Risks

- Regularly Perform Policy Reviews
- Regularly Test Program Controls
- Identify Internal and External Threats
- Improve Fraud Reporting Vehicles
- Improve Audit Recommendations
- Historical Investigative Data

KNOW YOUR PROGRAM



Questions:

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