



**Detecting, Mitigating, and Reporting Fraudulent Activity
Identified During Audit Engagements**



Who Do You Think You Are?

Perceptions in Popular Culture

- Doctors
- Lawyers
- Police
- Auditors and Analysts

Course Objectives:

- This course will discuss how to properly identify fraud, the types of fraud, the application of investigative tools and techniques employed during audits (scope and methodology), and how to mitigate exposure to fraud risk, as well as reporting fraud to the proper authorities.

Definition: Fraud

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

Definition: Improper Payments

An improper payment is statutorily defined as any payment that should not have been made or that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements.

Types of Fraud

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

Fraud Facts

- Fraud is program specific
- Detection tools and techniques are based on type of good and service
- All fraud has a common base and/or features
- Commission of the offense is dependent on relevant statutes, program regulations, and requirements

Fraud Detection Methods

Reactive

- Inconsistent documents
- Hotline activity
- Ineligible good or service
- Unallowable costs
- Duplicate payments
- Insufficient or lack of documentation

Proactive

- Data matching
- Data mining
- Vulnerability Assessments
- Controls Testing

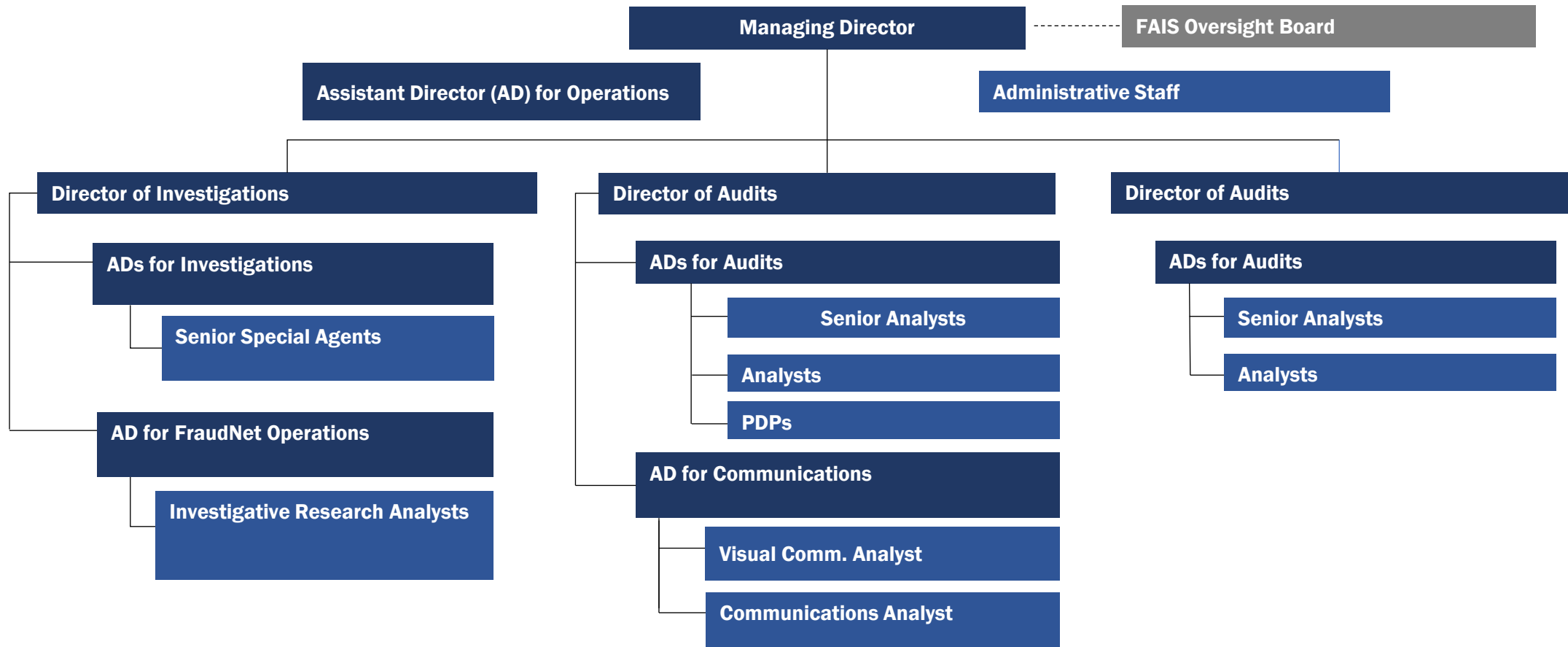
Fake invoices and gambling debts: How a county bureaucrat stole \$6.7 million

Peter Bang

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



Matrixing



Organizational Development

Personnel

- Cops
- Investigators
- Federal Agents

Investigative Mission

- Support Audits
- Collaborate on Potential Fraudulent activity
- Establish Intent
- Collect evidence to standard
- Interface with law enforcement

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 Products: Scope and Methodology

- Data Matching, Data Mining, Full Audit
- Subject Matter Experts
- Investigations, Vulnerability Assessments, Controls Testing
- Selection Criteria
- Legal Review

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.



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



Fraud Mitigation Tools

Better Recommendations

Based on Sufficient and Appropriate Evidence

- Identify Vulnerabilities
- Design and Implement of Controls
- Identify Internal and External Threats
- Improved Fraud Reporting Vehicles
- Recommendations
- Test Controls
- Better Pre-Award Survey

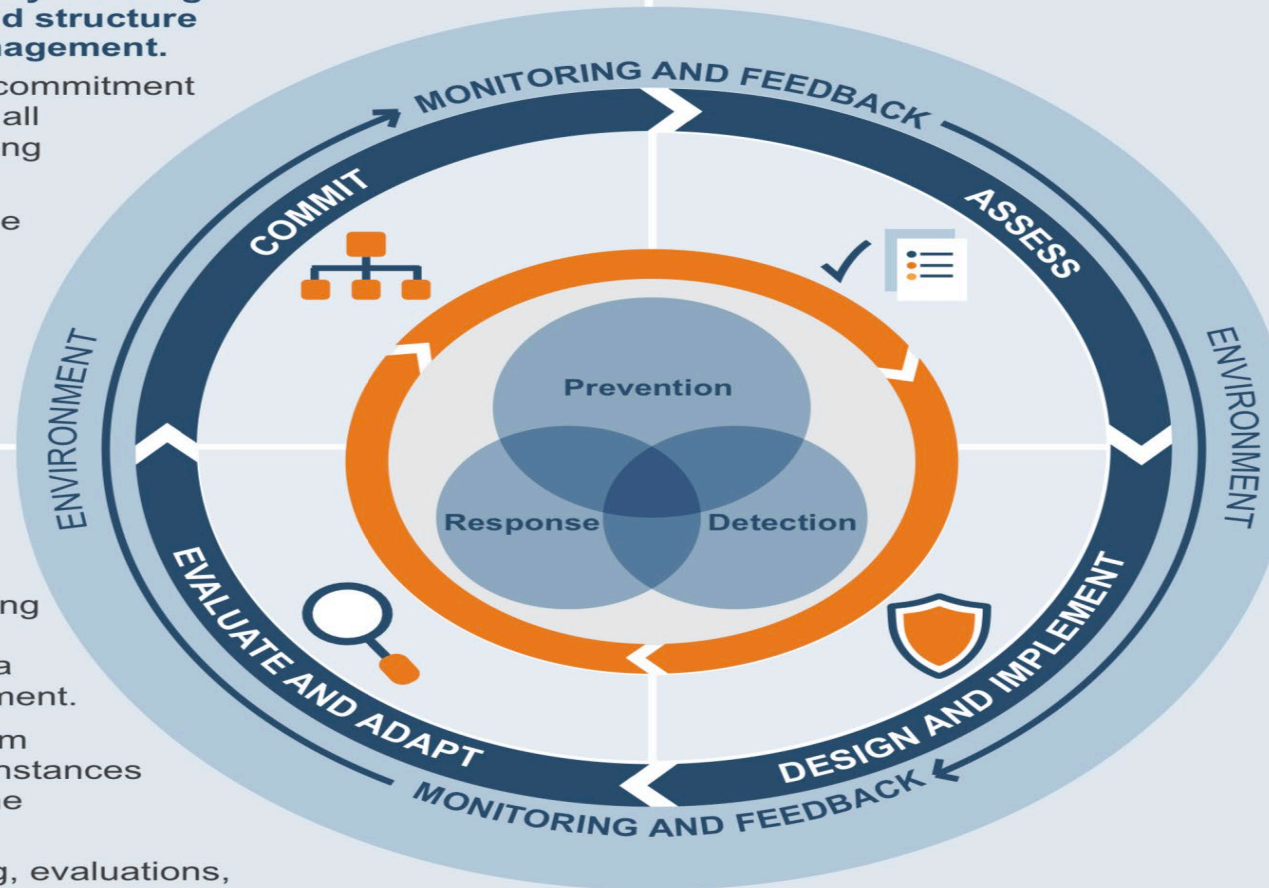
The Fraud Risk Management Framework and Selected Leading Practices

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.

Reporting Fraud

- Report Immediately
- Negotiate Reporting Format
 - Letter
 - Memorandum
 - Verbal
- Expect Pushback
- Activity Type
 - Reactive
 - Proactive
 - Historical
- Evidence
 - Documentary
 - Testimonial
 - Directed

Reporting Fraud: Federal Investigative Agencies

- Federal Bureau of Investigations
- Internal Revenue Service, Criminal Investigations Division
- United States Postal Inspection Service
- Appropriate Office of Inspectors General

KNOW YOUR PROGRAM



Questions:

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