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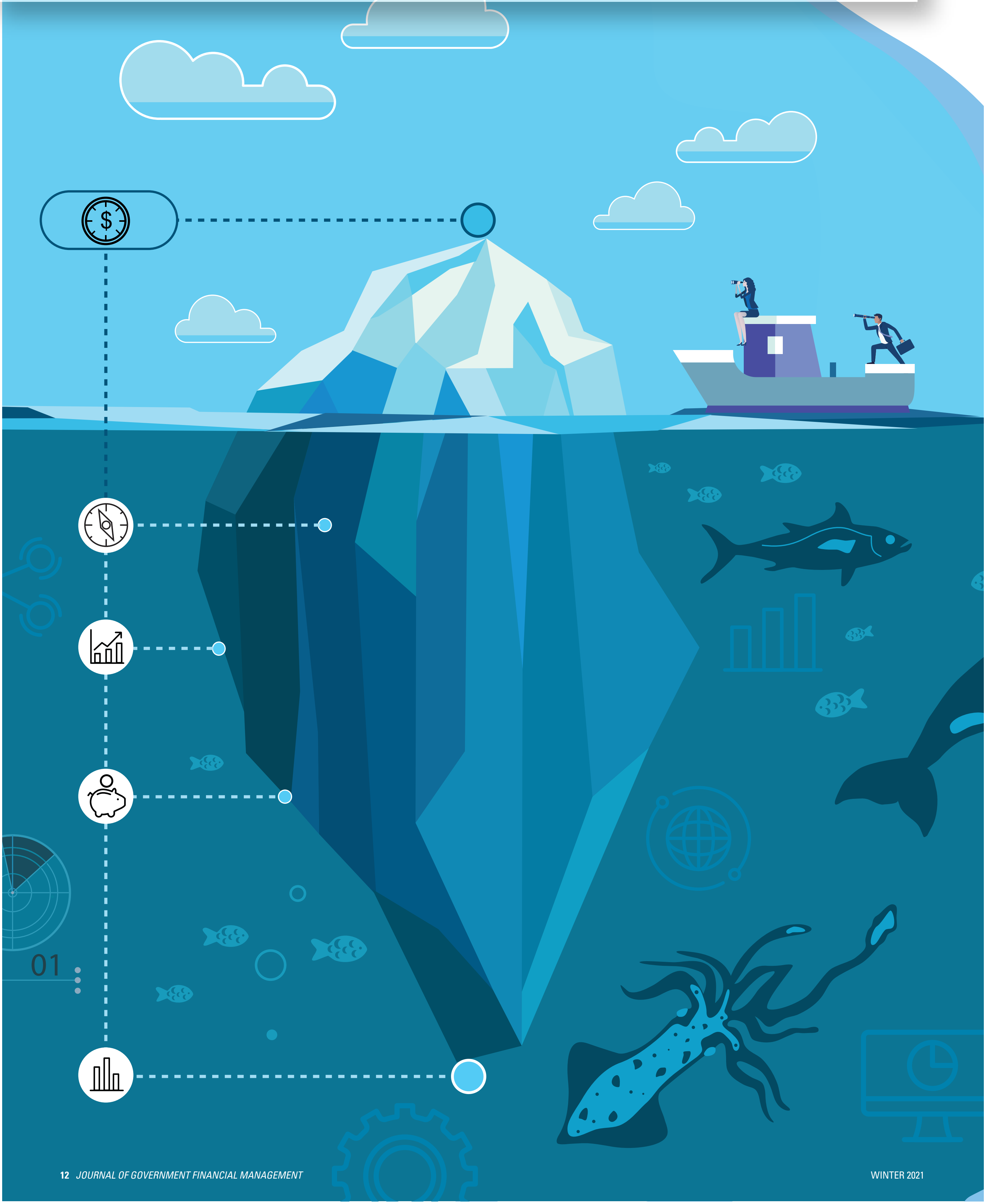
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From Theory to Practice

Strategic Plans Accelerate Fraud Risk Management

By Sophia Carlton and Taylor Larimore

Fraud happens all the time, and it can happen anywhere. Like the proverbial iceberg, it skulks beneath the surface, unknown until discovered. For the public sector, the problem is titanic. According to the Association of Certified Fraud Examiners (ACFE), government and public administration entities ranked second in 2020 among the 15 industries most impacted by fraud.[1] Since ACFE's study, global instances of fraud have increased. In August, estimates suggested Americans have filed more than 184,000 fraud reports related to COVID-19 stimulus funding, totaling more than $124 million.[2] But remember the old iceberg metaphor: those figures likely represent the tip.

Bear in mind that fraud follows opportunity and attacks weakness. Consider some of 2020's biggest fraud scandals. A scathing Small Business Administration (SBA) watchdog report published in October said SBA approved billions of dollars for inappropriate disaster aid loans for COVID-19 relief because it loosened internal controls in the disbursement process.[3] And let's not overlook the bad actors who targeted state and local unemployment programs. For example, Ohio froze 270,000 expanded unemployment benefits over concerns that sophisticated crime rings were submitting claims worth up to $200 million a week.[4] Although oversight bodies, including the federal Pandemic Response Accountability Committee, and detailed stimulus oversight plans at the state and local levels[5] are in place, efforts cannot stop there.

Move Beyond Compliance

Federal, state and local agencies should move beyond compliance to combat fraud strategically rather than opportunistically. An effective fraud risk management (FRM) program will show an agency where it is vulnerable and how to take control. A vital component is a strategic plan, which serves as the backbone for decision-making and ensures resources to prevent and detect fraud, waste and abuse (FWA) are focused on areas of highest impact and priority, as described in **Figure 1**.

Many agencies do not take time to develop a strategy for their FRM program. Programs are often reactions to fraud events or the findings and recommendations of oversight bodies, such as the Government Accountability Office (GAO) or Inspectors General. At times, FRM is conducted solely as a compliance activity, meaning certain agencies miss out on the benefits of a healthy program. Agencies should instead treat FRM like any other strategic endeavor — with ample time taken to define their program mission, vision and goals and to create an actionable plan to get there. The resulting strategic plan will then drive all overarching FRM business decisions, such as prioritizing process changes and investing in improvements and technology.

Why Strategic Plans Matter

The key benefits of an anti-fraud strategy, listed in **Figure 1**, are not all-inclusive. Many other advantages derive from strategic planning. To determine whether an agency would benefit, consider the following questions:

- Does the agency struggle to decide where to allocate FRM resources?
- Does the agency always seem to be one step behind fraudsters?
- Is the agency more focused on FWA detection than prevention?
- Is FRM viewed as a compliance activity instead of a tool for the prevention and detection of threats?
- Does the agency need a clear picture of its current FRM program?
- Does the agency lack an actionable roadmap to implement or advance FRM efforts?

RELEVANT LEGISLATION AND GUIDANCE

Federal legislation and guidance emphasize the importance of designing and implementing a comprehensive FRM program, including a strategy to combat fraud. **Figure 2** showcases relevant laws and resources — from OMB Circular A-123 to the most recent legislation, the Program Integrity Information Act of 2019 (PIIA). While all of the legislation and guidance in **Figure 2** are significant, GAO's Fraud Risk Framework and underlying components outline actions for agencies to consider in developing an anti-fraud strategy, shown in **Figure 3**.

If the answer to any of the questions is yes, then strategic planning can help overcome these common hurdles. For example, it is imperative to understand the FRM program's current state to recognize where it needs to go — its optimal future state. In a recent maturity assessment to compare an agency's current FRM program to leading guidance and best practices, the evaluation team noted several FRM activities. Still, because they were scattered throughout the organization, the agency lacked insight into their breadth and depth. The findings led to the creation of a strategic plan to consolidate oversight of the disparate FRM activities. It set clear priorities, defined the steps needed to close gaps and vulnerabilities identified in the assessment, and moved the agency toward coordinated, proactive FRM.

Figure 1. The Benefits of an Anti-Fraud Strategy

An anti-fraud strategy delivers numerous benefits. For example, it:

- **Serves as a basis for decision-making and prioritization.**
- **Allows agencies to target limited resources in areas of highest priority and impact.**
- **Shows agencies where the FRM program stands at any moment and where opportunities for improvement and gaps exist.**
- **Moves beyond compliance to target and combat fraud strategically rather than opportunistically.**
- **Approaches FRM proactively instead of the more costly pay-and-chase method.**

Related to broader FRM, consider another set of questions:

- Do stakeholders understand FRM and why it matters?
- Are the results of FRM activities used in decision-making (i.e., resource allocation, prioritizing process improvements or changes, technology enhancements or investments), or are outputs just put back on the shelf?
- Are the results of FRM activities integrated with other risk management and strategic planning efforts throughout the agency, including communication to share lessons learned and adjust strategy?

If the answer to any of these questions is no, then strategic planning can enhance the FRM program. For example, suppose an agency has FRM activities in place, such as a fraud risk assessment, and outputs are only used as a compliance checkmark, not for decision-making or shared with other parts of the agency. Then a strategic plan would make a difference.

Figure 2. Fraud Legislation and Guidance

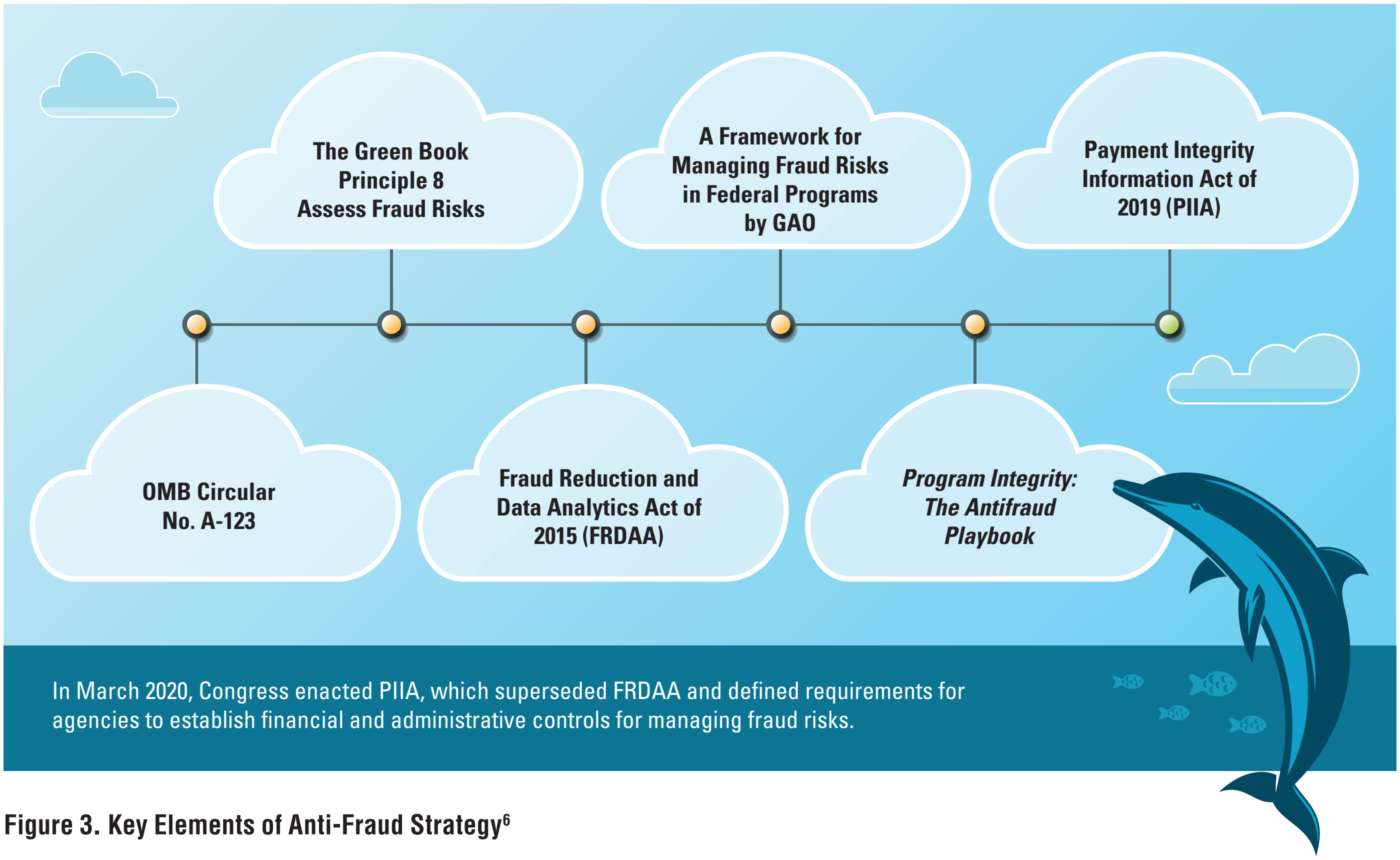
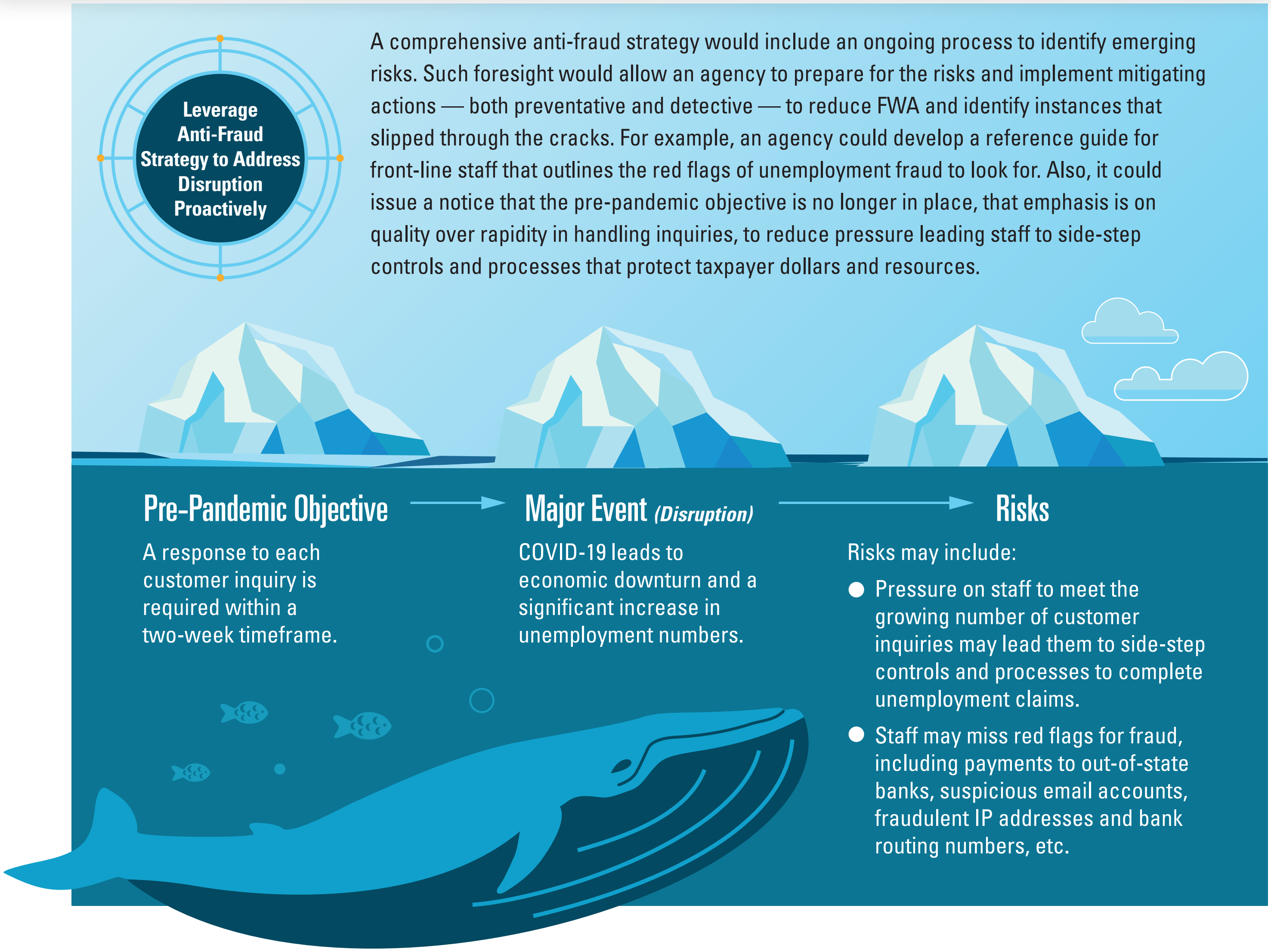


Figure 3. Key Elements of Anti-Fraud Strategy[6]

KEY QUESTION	GAO GUIDANCE
Who is responsible for FRM activities?	Establish the roles and responsibilities of those involved in FRM activities, such as the anti-fraud entity and external parties responsible for fraud controls. Clearly communicate the role of the Office of the Inspector General in investigating potential fraud.
What is the program doing to manage fraud risks?	Describe the FRM program activities in preventing, detecting and responding to fraud, as well as monitoring and evaluation.
When does the program implement FRM activities?	Create timelines for implementing FRM activities, as appropriate, including monitoring and evaluations.
Where does the program focus its FRM activities?	Demonstrate links to the highest internal and external residual fraud risks outlined in the fraud risk profile.
Why is FRM important?	Communicate the anti-fraud strategy to employees and other stakeholders, and link anti-fraud efforts to other risk management activities, if any.

Figure 4. Use Anti-Fraud Strategy Proactively to Address Disruption



Further, an anti-fraud strategy could help develop responses to disruptions. **Figure 4** outlines a way to leverage FRM to stay ahead of emerging risks and respond to threats effectively.

Leverage FRM in Decision-making

Whether an FRM program is just getting started or already up and running, determining how to use its outputs for decision-making can be daunting. Consider two examples of translating insight into action.

Example #1: Leverage the Results of Fraud Risk Assessment

A fraud risk assessment delivers a wealth of information, including insight into key risks, gaps and vulnerabilities. Suppose a key threat in an agency is expense reimbursement fraud. With ever-growing resource constraints and competing priorities, risk managers can use this information to focus on mitigating activities in areas where it will matter most, such as analytic tests to monitor high-risk transactions. For example:

- Examining business travel expenses for departures on Friday or Saturday with returns on Sunday or Monday to verify business purposes.
- Comparing travel locations to expense-incurred locations.
- Isolating even-dollar amounts from unexpected sources (hotels, car rentals, etc.) to check for fraudulent expenses.

The results of a fraud risk assessment should also inform the overarching FRM program strategy.

> Need more information? GAO's Fraud Risk Framework offers guidance on strategic planning to help organizations respond to identified risks. It also explores collaborative relationships to ensure the adoption and implementation of anti-fraud strategy.[1]

Example #2: Leverage the Results of Monitoring and Evaluations

Monitoring almost always comes last in organizational FRM design. Sometimes it is left out altogether. However, monitoring and periodic evaluations of the full spectrum of FRM activities provide vital insight into program effectiveness and areas that need improvement. These measures can take many forms, such as:

- **Collecting and analyzing data**, including data from reporting mechanisms and instances of detected fraud. Real-time fraud trend monitoring can identify potential controls gaps or vulnerabilities.
- **Checking the effectiveness of preventive activities**, including training, fraud risk assessments, and the anti-fraud strategy.

Since fraud constantly evolves, fraud trends also change over time. Gathering and analyzing data will begin to tell the story, but even the most comprehensive fraud risk assessment will fail to identify every potential control gap or vulnerability. Then, monitoring becomes vital to understanding 1) how the risk landscape may be shifting and 2) whether fraudsters have discovered a control gap or vulnerability. Results are also useful in making improvements to FRM programs, such as enhanced training on new and emerging threats, and making decisions on mitigating actions, such as a new or revised control or a complete process change.

It can be challenging to translate FRM theory into practice, though. The key is to focus on outcomes over outputs. For example, an agency that focuses on compliance in fraud risk assessments may rely solely on surveys to ascertain the likelihood and impact of fraud risks. But what if the agency staff does not understand how to conduct evaluations or take enough time to do them correctly? The result is time wasted having employees complete surveys that provide no meaningful insights. A focus on outputs, such as the number of risks assessed, makes the results inadequate, perhaps useless.

However, in-depth fraud risk workshops and education can improve employees' ability to score and prioritize risk. Leadership can also dialogue with personnel about the impact of fraud risks, controls and processes. The result can be measurements focused on outcomes, such as changes in the likelihood and impact scores from one assessment to the next, to gauge the effect of mitigating actions on risk. The bottom line is that the results of monitoring and evaluations can drive continuous improvement.

For more information, check out the last play in *Program Integrity: The Antifraud Playbook*.[1] It outlines practical guidance for monitoring and evaluations aligned with GAO's Fraud Risk Framework.

Best Practices & Resources

In developing an anti-fraud strategy, keep best practices in mind:

- Make sure the overarching FRM program strategy outlines who, what, when, where and why.
- Communicate the strategy with employees and key stakeholders and outline their roles in FRM program success.
- Define the FRM program alongside other risk management activities and plan how to communicate their outcomes to each faction.
- Continue to improve and refine the FRM program strategy and leverage results, including outputs from fraud risk assessment, fraud-awareness training, etc.

FRM STRATEGY & PROGRAM RESOURCES

AGA's Fraud Prevention Tool[7]	Resources for federal, state, local and tribal government financial managers to use in preventing and detecting fraud
AGA's Internal Controls Tool[8]	Helps organizations develop and maintain the most effective internal controls
Program Integrity: The Antifraud Playbook[9]	A compilation of best practices and lessons learned at various agencies in the development and advancement of anti-fraud efforts
ACFE's Fraud Resource Library[10]	A comprehensive collection of publications, articles, reports, sample documents, tools, videos and podcasts with the information to help fight fraud effectively
ACFE's Fraud Risk Tools[11]	Resources, including interactive scorecards, a library of anti-fraud data analytics tests, risk assessment and follow-up action templates and more to help organizations combat fraud and build effective FRM programs

This list is not comprehensive, but each resource offers useful information to align FRM with leading guidance.

One Size Does Not Fit All

The fraud risk journey looks different for every organization — one size does not fit all. An effective FRM program and anti-fraud strategy should be customized to meet the unique needs of each entity. A good plan has relevance and context; it should serve as a living artifact rather than a set-and-forget exercise. Because FRM is a long-term journey, the mantra must be: "Do something, start somewhere." If FRM strategy is already in place, dive deep to determine where to improve it for increased FRM program effectiveness. If devising strategy from scratch, leverage best practices and leading guidance to tailor it to the organization. Remember: robust anti-fraud programs not only stop bad actors but also help protect the agency, our taxpayer resources, and mission achievement. J

Endnotes

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Sophia Carlton, CFE, is a manager in the fraud risk mitigation and analytics practice at Grant Thornton Public Sector LLC. A seasoned FRM practitioner, she has extensive experience in fraud risk assessments, the development and implementation of enterprise-level anti-fraud strategies, and standing up FRM programs in complex environments. She contributed as a lead author to industry guidance, including ACFE & GT's **The Anti-Fraud Playbook** *and the CFO Council's* **Program Integrity: The Antifraud Playbook.** *She holds a master's degree in accounting from James Madison University.*

Taylor Larimore is a senior manager in the fraud risk mitigation and analytics practice at Grant Thornton Public Sector LLC. He specializes in developing innovative strategies to help public sector agencies assess their fraud risks and take proactive stances to combat FWA. He led the project to develop **The Anti-Fraud Playbook** *in partnership with the Department of the Treasury and CFO Council. His MPA degree from Indiana University includes concentrations in public financial management and program integrity.*