Building Public Trust and Confidence in Government

Inaugural Gulf Region PDT

May 5, 2015

Jeff Hart, Independent Consultant

AGA Past National President

Topics to Cover

- Trust & Confidence in Government—Our Ultimate Goal
- Declining Trust & Confidence
- AGA’s Fraud Prevention Toolkit
- Definition of Fraud
- Internal Controls—The Primary Preventative Tool
- GAO Green Book
- GAO Internal Control Management and Evaluation Tool
- FMFIA & OMB Circular A-123
- Audit & The Yellow Book—A Detective Tool (and deterrent/prevention tool)
- Fraud Red Flags
- Questions?
Trust & Confidence in Government—Our Ultimate Goal

- Increasing Transparency & Accountability is How We Do It
  - This is our profession’s ultimate goal
  - This is AGA’s ultimate goal
  - This is our responsibility
  - This is your responsibility

AGA Activities Support/Lead To Building Trust & Confidence in Government

**AGA Value Proposition (3-30-07)**

**Inputs/Resources**

- **Financial:**
  - Individual Member Dues
  - Corporate Partner Dues
  - CGFM Revenue
  - Conference & Training Course Fees
  - Sponsorships
  - Exhibitor Fees
  - Grants (SEA)

- **Non-Financial:**
  - Volunteers’ Time & Expertise
  - Corporate Partners’ Time & Expertise
  - AGA Staff Expertise

**Activities**

- Plan and Publicize Conferences & Training Courses
- Administer & Promote CGFM Program
- Administer & Promote CEAR, SEA, & Citizen-Centric Programs
- Plan & Publicize Networking Opportunities
- Conduct Research
- Provide Member Leadership Opportunities
- Recognize Members & Others with Awards
- Provide Input to Standards Setters
- Participate in Community Service Projects
- Other Services to Members & Chapters
- New Activities to Advance Government Accountability

**Outputs**

- Conferences, Training Courses, Networking Opportunities
- Current CGFM Exam
- The “Journal”, “Topics”, “This Week”, Web sites, Chapter Newsletters, Press Releases
- Research Reports
- Formal, Tangible Recognition of the CGFM Government Accountability Professionals
- Current on Emerging Issues
- Productive Relationships with Other Relevant Organizations

**Short Term Outcomes**

- Increased Member Technical & Management Skills
- Increased Public Awareness of AGA, CGFM, & Profession
- More AGA-Shaped Legislation & Regulatory Proposals
- Recognition of AGA as “The Premier Association in Advancing Government Accountability"
- Recognition of AGA as the “Thought Leader”
- Recognition of AGA as the Leading Source of Information on Government Accountability"
- Recognition of AGA as a Model in Financial & Performance Measurement & Reporting
- AGA Viewed as Key Source for Input/Comment on Government Accountability Issues
- More PAR, SEA, & Citizen-Centric Performance Reports Published

**Long Term Outcomes**

- Increased Value of Individual AGA Members
- Increased Value of CGFM Designation
- Increased Value of Members’ Employers
- Increased Value of Government Accountability Profession
- Government Accountability Profession Seen as Able to Regulate Itself
- Increased Transparency & Government Accountability
- Increased Public Trust in Government
- More Healthy & Vibrant Democracy

**Intermediate Outcomes**

- Increased AGA Membership & Number of Chapters
- Increased Number of CGFMs
- Expanded AGA Influence in Government Accountability Profession
- Increased Confidence in the Integrity, Competence, Credibility, and Professionalism of Government Accountability Professionals
- Improved Government Accountability, Management, & Decision Making Practices
- More University Courses in Government Accountability
- Increased Executive Level Participation in AGA Activities & Leadership

**Customers/Stakeholders**

- AGA Members
- AGA Chapters
- Government Accountability Professionals
- Employers of Government Accountability Professionals
- Corporate Partners
- Academia
- U.S. Congress, State Legislatures, City/Town Councils
- Public Interest Groups
- General Public
- Media/Press

**Externalities:**

- Demographic Tidal Wave, Political & Economic Climate

(Note: AGA Regional & Chapter references in red text above)
Declining Trust & Confidence—
The Research

- Political scientists generally agree that low levels of trust in government and confidence in institutions represent at least the potential for a crisis in governability if not democracy in the United States.

- Levels of trust and confidence reached all-time or near-all-time lows in 2012.

The Research—Continued

- Americans have become significantly less trusting of each other and less confident in large institutions, such as:
  - the news media,
  - business,
  - religious organizations,
  - the medical establishment,
  - Congress, and
  - the Presidency.
Washington Post--2013 Gallup Survey

- “Trust in two of the three branches of government — the judicial and executive — were down from 2012 levels, while trust in the legislative branch remained about the same.”

- The percentage of respondents that had “a great deal/fair amount of trust” in the branch declined from 2012 to 2013 to 51% for the executive branch.

The Surveys--Continued

- Only 34 percent had “a great deal/fair amount of trust” in the legislative branch.

- Other surveys over the last several years have found that only 9-12 percent of respondents approved of Congress.
“There is no kind of dishonesty into which otherwise good people more easily and more frequently fall than that of defrauding the government.”

“An ounce of prevention is worth a pound of cure”

- Ben Franklin

Trust & Confidence in Government—Our Ultimate Goal

- Increasing Transparency & Accountability is How We Do It
- Preventing/reducing fraud (waste, abuse, mismanagement) is one measure of accountability
- Internal Controls our best defense
Consequences of Fraud (Waste, Abuse, and Mismanagement)

- Today’s media leaves no room for error
- Fraud and bad PR reduces trust & confidence
- Jail time for some (even teachers/administrators)
AGA offers a number of FREE, online ToolKits and guides for professionals working at all levels of government to help them manage and account for matters facing federal, state, local, and tribal organizations today. Through our Intergovernmental Management and Accountability Partnership and our collaborations with public and private industry partners, we strive to produce simple, useful resources that promote greater accountability, integrity and transparency within government organizations.

**ToolKits**

- **Risk Assessment Monitoring Toolkit**
  Provides states with a method of assessing sub-recipient risk across federal granting authorities.

- **Financial and Administrative Monitoring Toolkit**
  Assists state agencies establish sub-recipient monitoring programs. For use with the AGA Assessment Monitoring tool.

- **Fraud Prevention Toolkit**
  Helps officials at any level of government detect, combat and prevent fraud.

**Guides**

- **Cooperative Audit Resolution and Oversight Initiative (CARO) Guide**
  Helps identify the underlying cause of audit and oversight findings and empowers the people who know programs best to chart a course for program improvement.

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**The AGA Fraud Prevention ToolKit**

**An AGA Intergovernmental Management and Accountability Partnership Project**

Welcome to the AGA Fraud Prevention ToolKit!

**View Fraud Prevention Tools by:**

- Business Process
- Program Area
- Fraud Type
- Fraud Awareness and Mitigation
- Tools/Best Practices
- Fraud News
- Glossary of Terms
- About the Toolkit
- How to Use the Toolkit

**Search for Fraud Prevention Tools by:**

- Google Custom Search

AGA’s Fraud Prevention Toolkit provides current, state-of-the-art tools for federal, state, local and tribal government financial managers to use in preventing and detecting fraud. It furthers AGA’s mission of “Advancing Government Accountability.”

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AGA convened a special work group of government officials to develop this Toolkit because:

- The typical organization loses 5 percent of its annual revenue to fraud.
- Governments are the third most frequent victims of fraud (after banking and manufacturing).
- The median loss per occurrence in the public sector exceeds $61,000.
- The median duration of those fraud schemes which are discovered is 18 months.

*Source: Association of Certified Fraud Examiners’ 2020 Report to the Nations*

“There is no kind of dishonesty into which otherwise good people more easily and more frequently fall than that of defrauding the government.”

- Ben Franklin

The ToolKit is organized in a manner that promotes education. It contains a comprehensive array of tools, posters, educational materials, PowerPoint Presentations and videos. Users can find tools by looking under business process such as accounts receivable, program areas like the Office of Management and Budget’s High-risk programs, or by fraud type such as Bid Rigging.
Definition of Fraud

- Any **intentional** illegal acts characterized by deceit, concealment, or violation of trust
- Frauds are committed by individuals and organizations to
  - obtain money, property, or services
  - avoid payment or loss of services
  - secure personal or business advantage (IIA)
- Obtaining something of value through **willful** misrepresentation (GB paragraph 8.02)

The Fraud Triangle

All three components must be present at the same time for someone to commit fraud

**Pressure**
- Financial—major bills, high level of debt, or simple greed
- Personal—gambling or other addiction
- Work-related—feeling overworked and underpaid; passed over for a promotion

**Opportunity**
- Trust—person has reached a certain level within the organization
- Internal controls—either weak or nonexistent

**Rationalization**
- Justification—"I'm only borrowing the money. I'll give it back when my financial situation improves."
- Lack of ethics—"Management isn't honest, so why should I be?"
Types of Fraud

- Fraud against an organization can be committed either **internally** by employees or **externally** by customers, vendors, and other parties. Other schemes defraud individuals, rather than organizations.

  - **Internal Fraud/occupational fraud**—“the use of one’s occupation for personal enrichment through the **deliberate** misuse or misapplication of the organization’s resources or assets.”

External Fraud--Vendors

- Bid-rigging schemes
- Bill for goods or services not provided
- Demands for bribes from employees
External Fraud—Customers/Public

- Submitting bad checks or falsified account information for payment
- returning stolen or knock-off products for a refund
- security breaches, thefts of intellectual property, hacking, theft of proprietary information, tax fraud, bankruptcy fraud, insurance fraud, healthcare fraud, and loan fraud

Categories of Fraud-- “The Big Three”

1. Asset Misappropriation
   - Theft of cash, inventory, services, and other assets
2. Corruption
   - Conflict of Interest,
   - Bribery
3. Fraudulent Statements and Reporting
How Occupational Fraud is Committed

Figure 3: Occupational Fraud and Abuse Classification System (Fraud Tree)

Figure 4: Occupational Frauds by Category — Frequency
Asset Misappropriation
Sub-Schemes

Figure 8: Frequency and Median Loss of Asset Misappropriation Sub-Schemes

- Billing Schemes
- Cash Larceny
- Corruption, Bid Rigging, Kickbacks
- Cross Charging
- Eligibility and Credentialing Schemes
- Embezzlement
- Forgery
- Mortgage Fraud
- Payroll Schemes
- Product Substitution & Contract Violations
- Skimming and Lapping
- Theft and Misuse
Less Fraud in Government than Private Sector

Figure 17: Type of Victim Organization — Frequency

<table>
<thead>
<tr>
<th>Type of Victim Organization</th>
<th>2014</th>
<th>2012</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private Company</td>
<td>22.5%</td>
<td>21.3%</td>
<td>22.1%</td>
</tr>
<tr>
<td>Public Company</td>
<td>30.5%</td>
<td>31.8%</td>
<td>32.5%</td>
</tr>
<tr>
<td>Government</td>
<td>16.4%</td>
<td>15.1%</td>
<td>16.4%</td>
</tr>
<tr>
<td>Not-for-Profit</td>
<td>10.8%</td>
<td>11.3%</td>
<td>11.3%</td>
</tr>
<tr>
<td>Other</td>
<td>15.1%</td>
<td>14.0%</td>
<td>10.0%</td>
</tr>
</tbody>
</table>

*Other* category was not included in the 2016 Report.

High-Error Programs (per OMB)

<table>
<thead>
<tr>
<th>Program</th>
<th>Agency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medicare Fee-for-Service</td>
<td>Department of Health and Human Services</td>
</tr>
<tr>
<td>Earned Income Tax Credit (EITC)</td>
<td>Department of the Treasury</td>
</tr>
<tr>
<td>Medicaid</td>
<td>Department of Health and Human Services</td>
</tr>
<tr>
<td>Medicare Advantage (Part C)</td>
<td>Department of Health and Human Services</td>
</tr>
<tr>
<td>Unemployment Insurance (UI)</td>
<td>Department of Labor</td>
</tr>
<tr>
<td>Supplemental Security Income (SSI)</td>
<td>Social Security Administration</td>
</tr>
<tr>
<td>Supplemental Nutrition Assistance Program (SNAP)</td>
<td>Department of Agriculture</td>
</tr>
<tr>
<td>Retirement, Survivors, and Disability Insurance (RSDI)</td>
<td>Social Security Administration</td>
</tr>
<tr>
<td>Medicare Prescription Drug Benefit (Part D)</td>
<td>Department of Health and Human Services</td>
</tr>
<tr>
<td>National School Lunch Program (NSLP)</td>
<td>Department of Agriculture</td>
</tr>
</tbody>
</table>
Question for Attendees

- What do we in government REALLY manage?

- Hint: A single, five letter word

R-i-s-k-s

- Anything that may prevent an organization from meeting its goals and objectives
Categories of Risk

- **Inherent Risk**
  - related to the *nature* of the underlying process, asset or organization (complex, cash, environment)

- **Control Risk**
  - the effectiveness of an organization’s internal *control structure*

- **Detection Risk**
  - how likely and how quickly the event can and will be *uncovered*

Risk Modeling and Assessment

- Determine the *nature and severity* of risk and the methods that can be brought to bear to mitigate (steps 2-5 = “Risk Assessment”)
  1. Identify Organization’s *Objectives*
  2. Survey/inventory the Operation, Process and/or Environment
  3. Reduce the Operation, Process and/or Environment into Its *Component Elements* or Steps
Risk Modeling and Assessment (cont.)

4. Identify Potential *Threats* to Each Identified Element or Step
5. Identify *Vulnerabilities* of Each Identified Element or Step
6. Design *Preventive* Controls for Each Identified Element or Step
7. Design *Detective* Controls for Each Identified Element or Step
8. Design *Corrective* Controls for Each Identified Element or Step

AGA Tools/Best Practices by Business Process, Program Area, and Fraud Type

- **Accounts Payable** *(Disbursements)*
- **Accounts Receivable** *(Receipts)*
- **Contract Management**
- **Grants and Program Management**
- **Information Technology and Security**
- **Inventory Management**
- **Management**
- **Payroll and Human Resources**
- **Procurement** *(Purchasing)*
- **Vendor Management**
- **High-Error Programs**
Tools/Best Practices (cont.)

- Construction and Public Works
- Education
- Energy and Environment
- Healthcare Services
- Housing
- Human Services
- Public Safety

- Taxation
- Billing Schemes
- Cash Larceny
- Corruption, Bid Rigging, Kickbacks
- Cross Charging
- Eligibility and Credentialing Schemes
- Embezzlement

- Forgery
- Payroll Schemes
- Product Substitution and Contract Violations
- Skimming and Lapping
- Theft and Misuse
AGA Master Risk Tables

- Accounts Payable
- Accounts Receivable
- Contract Management
- Grant and Program Management
- Information Technology & Security
- Inventory Management
- Management
- Payroll & Human Resources
- Procurement/Purchasing
- Program Area Risk Tables
- Construction and Public Works
- Education

Master Risk Tables (cont.)

- Energy & Environment
- Health
- Housing
- Human Services
- Public Safety
- Taxation
- Fraud Type Risk Tables
- Billing Schemes
- Cash Larceny
- Corruption, Bid Rigging, Kickbacks
- Cross Charging
- Eligibility and Credentialing Schemes
- Embezzlement
- Forgery
- Mortgage Fraud
- Payroll Schemes
Master Risk Tables (cont.)

- Product Substitution & Contract Violations
- Skimming and Lapping
- Theft and Misuse

Risk Table: Skimming & Lapping

<table>
<thead>
<tr>
<th>Example</th>
<th>Red Flags</th>
<th>Tools/Best Practices</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lapping</td>
<td>Excessive number of voided transactions. Unauthorized bank accounts. Sudden activity in a dormant banking account. Taxpayer complaints that they are receiving non-payment notices. Discrepancies between bank deposits and postings. Abnormal number of expense items, supplies, or reimbursement to an employee. Presence of employee checks in petty cash. Excessive or unjustified cash transactions. Bank accounts that are not reconciled on a timely basis.</td>
<td>Segregate duties between posting to accounts receivable sub ledger and cash receipts.</td>
</tr>
</tbody>
</table>
Prevention is Key

- Detection provides accountability and serves legitimate *deterrent/prevention* purpose
- Detecting and publicizing *more fraud* also *hurts* trust and confidence
- *Prevention* = fewer cases, less publicity, *more* trust and confidence
- Internal controls key to prevention

Prevention Underutilized

- *Proactive* data monitoring and analysis was used by only 35% of victim organizations, but the *presence of this control* was correlated with *frauds that were 60% less costly and 50% shorter* in duration
Yellow Book Definition of Control

- the *plan, policies, methods, and procedures* adopted by management to meet its missions, goals, and objectives
- the processes for *planning, organizing, directing, and controlling* program operations
- the systems for *measuring, reporting, and monitoring program performance*

Internal Controls=Fraud Defense

- Internal control serves as a *defense* in
  - safeguarding assets and in preventing and detecting
    - errors;
    - *fraud*;
  - noncompliance with provisions of laws, regulations, contracts or grant agreements; or
  - abuse.
### Effectiveness of Controls--Loss

**Figure 37: Median Loss Based on Presence of Anti-Fraud Controls**

<table>
<thead>
<tr>
<th>Control</th>
<th>Percent of Cases</th>
<th>Control in Place</th>
<th>Control Not in Place</th>
<th>Percent Reduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proactive Data Monitoring/Analysis</td>
<td>34.2%</td>
<td>$73,000</td>
<td>$181,000</td>
<td>59.7%</td>
</tr>
<tr>
<td>Employee Support Programs</td>
<td>52.4%</td>
<td>$90,000</td>
<td>$200,000</td>
<td>55.0%</td>
</tr>
<tr>
<td>Management Review</td>
<td>62.6%</td>
<td>$100,000</td>
<td>$208,000</td>
<td>51.5%</td>
</tr>
<tr>
<td>Code of Conduct</td>
<td>77.4%</td>
<td>$100,000</td>
<td>$200,000</td>
<td>50.0%</td>
</tr>
<tr>
<td>Internal Audit Department</td>
<td>70.2%</td>
<td>$100,000</td>
<td>$188,000</td>
<td>44.4%</td>
</tr>
<tr>
<td>Formal Fraud Risk Assessments</td>
<td>33.5%</td>
<td>$94,000</td>
<td>$168,000</td>
<td>44.6%</td>
</tr>
<tr>
<td>Surprise Audits</td>
<td>33.2%</td>
<td>$80,000</td>
<td>$164,000</td>
<td>43.3%</td>
</tr>
<tr>
<td>External Audit of ICSR</td>
<td>65.2%</td>
<td>$100,000</td>
<td>$188,000</td>
<td>42.8%</td>
</tr>
<tr>
<td>Fraud Training for Managers/Executives</td>
<td>47.0%</td>
<td>$100,000</td>
<td>$168,000</td>
<td>40.5%</td>
</tr>
<tr>
<td>Hotline</td>
<td>54.1%</td>
<td>$100,000</td>
<td>$168,000</td>
<td>40.5%</td>
</tr>
<tr>
<td>Dedicated Fraud Department, Function or Team</td>
<td>38.5%</td>
<td>$100,000</td>
<td>$164,000</td>
<td>39.0%</td>
</tr>
<tr>
<td>Fraud Training for Employees</td>
<td>47.0%</td>
<td>$100,000</td>
<td>$164,000</td>
<td>39.0%</td>
</tr>
<tr>
<td>Anti-Fraud Policy</td>
<td>45.4%</td>
<td>$100,000</td>
<td>$155,000</td>
<td>35.5%</td>
</tr>
<tr>
<td>Management Certification of F/S</td>
<td>70.0%</td>
<td>$120,000</td>
<td>$184,000</td>
<td>34.1%</td>
</tr>
<tr>
<td>Job Rotation/Mandatory Vacation</td>
<td>19.9%</td>
<td>$100,000</td>
<td>$150,000</td>
<td>33.3%</td>
</tr>
<tr>
<td>External Audit of F/S</td>
<td>81.4%</td>
<td>$125,000</td>
<td>$186,000</td>
<td>32.6%</td>
</tr>
<tr>
<td>Rewards for Whistleblowers</td>
<td>10.5%</td>
<td>$100,000</td>
<td>$135,000</td>
<td>25.5%</td>
</tr>
<tr>
<td>Independent Audit Committee</td>
<td>62.0%</td>
<td>$120,000</td>
<td>$150,000</td>
<td>20.0%</td>
</tr>
</tbody>
</table>

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### Effectiveness of Controls--Duration

**Figure 38: Median Duration of Fraud Based on Presence of Anti-Fraud Controls**

<table>
<thead>
<tr>
<th>Control</th>
<th>Percent of Cases</th>
<th>Control in Place</th>
<th>Control Not in Place</th>
<th>Percent Reduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Surprise Audits</td>
<td>33.2%</td>
<td>12 months</td>
<td>24 months</td>
<td>50.0%</td>
</tr>
<tr>
<td>Proactive Data Monitoring/Analysis</td>
<td>34.8%</td>
<td>12 months</td>
<td>24 months</td>
<td>50.0%</td>
</tr>
<tr>
<td>Dedicated Fraud Department, Function or Team</td>
<td>38.6%</td>
<td>12 months</td>
<td>24 months</td>
<td>50.0%</td>
</tr>
<tr>
<td>Anti-Fraud Policy</td>
<td>45.4%</td>
<td>12 months</td>
<td>24 months</td>
<td>50.0%</td>
</tr>
<tr>
<td>Fraud Training for Employees</td>
<td>47.0%</td>
<td>12 months</td>
<td>24 months</td>
<td>50.0%</td>
</tr>
<tr>
<td>Hotline</td>
<td>54.1%</td>
<td>12 months</td>
<td>24 months</td>
<td>50.0%</td>
</tr>
<tr>
<td>Formal Fraud Risk Assessments</td>
<td>33.5%</td>
<td>12 months</td>
<td>24 months</td>
<td>47.8%</td>
</tr>
<tr>
<td>Management Review</td>
<td>62.9%</td>
<td>12 months</td>
<td>24 months</td>
<td>45.9%</td>
</tr>
<tr>
<td>Independent Audit Committee</td>
<td>62.0%</td>
<td>14 months</td>
<td>24 months</td>
<td>41.7%</td>
</tr>
<tr>
<td>Internal Audit Department</td>
<td>70.8%</td>
<td>14 months</td>
<td>24 months</td>
<td>41.7%</td>
</tr>
<tr>
<td>Job Rotation/Mandatory Vacation</td>
<td>19.2%</td>
<td>12 months</td>
<td>20 months</td>
<td>40.0%</td>
</tr>
<tr>
<td>Fraud Training for Managers/Executives</td>
<td>47.0%</td>
<td>13 months</td>
<td>21 months</td>
<td>38.1%</td>
</tr>
<tr>
<td>External Audit of ICSR</td>
<td>65.2%</td>
<td>15 months</td>
<td>24 months</td>
<td>37.5%</td>
</tr>
<tr>
<td>Management Certification of F/S</td>
<td>70.0%</td>
<td>15 months</td>
<td>24 months</td>
<td>37.5%</td>
</tr>
<tr>
<td>Rewards for Whistleblowers</td>
<td>16.5%</td>
<td>12 months</td>
<td>18 months</td>
<td>33.3%</td>
</tr>
<tr>
<td>Code of Conduct</td>
<td>77.4%</td>
<td>16 months</td>
<td>24 months</td>
<td>33.3%</td>
</tr>
<tr>
<td>External Audit of F/S</td>
<td>81.4%</td>
<td>18 months</td>
<td>24 months</td>
<td>25.0%</td>
</tr>
<tr>
<td>Employee Support Programs</td>
<td>52.4%</td>
<td>14 months</td>
<td>18 months</td>
<td>22.2%</td>
</tr>
</tbody>
</table>

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Control Weaknesses That Contributed to Fraud

Figure 30: Primary Internal Control Weakness Observed by CFE

1992 COSO Control Framework

Monitoring

Control Activities

Risk Assessment

Control Environment

Information & Communication
2014 GAO Green Book

- *Standards for Internal Control in the Federal Government*

  - sets the *standards* for an effective internal control system for federal agencies and

  - provides the *overall framework* for designing, implementing, and operating an effective internal control system.
Old/New Comparison

- **greater detail** and depth (almost quadrupling in length from 21 pages to 79 pages)
- Retains the **five components** of internal control
- also presents **17 new mandatory principles** that enumerate management responsibilities in implementing and overseeing an effective internal control system

Most Important Difference

- **makes it clear** that the five components or standards (Control Environment, Risk Assessment, Control Objectives, Information and Communication, and Monitoring Activities) apply to
  - all three categories of an organization’s objectives (Operations, Reporting, and Compliance), and
  - **all levels** of an organization’s organizational structure (e.g., Entity level, Division, Operating unit, and Function)
Green Book on Fraud

- These standards provide the overall framework for establishing and maintaining internal control and for identifying and addressing major performance challenges and areas at greatest risk for fraud, waste, abuse, and mismanagement.

ICs Help Accomplish Objectives

[Diagram showing steps: Objective identified → Controls designed → Controls in place → Objective achieved]

Source: GAO, GAO-14-70G
Five Components/Standards and 17 Principles of Internal Control

- OV2.09: Risk Assessment:
  - 8. Management should consider the potential for fraud when identifying, analyzing, and responding to risks

Fraud Risk Response

- 8.07: Management designs an overall risk response and specific actions for responding to fraud risks
  - Stopping or reorganizing certain operations and reallocating roles to enhance segregation of duties
  - Responses to address the risk of management override of controls
Categories of Control Activities

- Top-level reviews of actual performance
- Reviews by management at the functional or activity level
- Management of human capital
- Controls over information processing
- Physical control over vulnerable assets
- Establishment and review of performance measures and indicators
- Segregation of duties;
- Proper execution of transactions
- Accurate and timely recording of transactions
- Access restrictions to and accountability for resources and records
- Appropriate documentation of transactions and internal control

People Risk—HR, The Most Important Control?

- Employee Screening
- Past Employment Verification
- Criminal Conviction Checks (CORI)
- Reference Checks
- Education and Certificate Verification
Management of human capital

- **right personnel** for the job
- Right **training, tools, structure, incentives, and responsibilities**
- Required **knowledge, skills, and abilities**
- Qualified and continuous **supervision**
- Performance **evaluation and feedback** system
- Effective **rewards** system

Performance Measures the Most Important Control?

- Management
  - Establishes activities to monitor performance measures and indicators.
  - Designs controls aimed at **validating the propriety and integrity** of both entity and individual performance measures and indicators.
Performance Info Must be Reliable!

- People are willing to pay for government that works.
- People know government works when they are provided performance information that they can trust and have confidence in (it’s reliable).
- If people can not rely on the government’s performance metric reporting,
  - their trust and confidence in government will be diminished, and
  - they will be less wanting to pay for government.

2001 GAO “Internal Control Management and Evaluation Tool”

- systematic, organized, and structured approach to assessing the internal control structure

- managers need to examine internal control to determine how well it is performing, how it may be improved, and the degree to which it helps identify and address major risks for fraud, waste, abuse, and mismanagement.
Federal Managers Financial Integrity Act of 1982 (FMFIA)

- Establish controls that reasonably ensure:
  - (1) obligations and costs comply with applicable law,
  - (2) assets are safeguarded against waste, loss, unauthorized use or misappropriation, and
  - (3) revenues and expenditures are properly recorded and accounted for.

Agency head must annually evaluate and report on the systems of internal accounting and administrative control.

OMB Circular No. A-123, Management’s Responsibility for Internal Control

- A-123 and the statute it implements, FMFIA, are at the center of the existing Federal requirements to improve internal control
- OMB is developing a revised A-123 based on the new Green Book
- Draft to be released at the annual Joint Financial Management Improvement Program training session on Monday, May 18th
OMB’s vision for the 2015 update

- More **value-added, integrated, risk-based, and less burdensome** set of requirements for agencies
- Clarify technical terminology
- Replace “check the box” compliance approaches with **risk management** supporting agency **missions**
- Introduce Enterprise Risk Management (ERM)
- Build on internal controls over financial reporting, while at the same time reducing compliance burdens to focus on program controls

Specific Goals of A-123 Update

- Establishes requirements to **demonstrate** that an agency has a **system** of internal control based on GAO’s Green Book
- Adopts additional guidance based on the Committee of Sponsoring Organizations of the Treadway Commission (COSO)
- Provides no new requirements, other than internal control standards updates agreed upon between GAO, OMB, and CFO Council Representatives
Goals of A-123 Update (cont.)

- Reinforces **corrective action** planning requirements to ensure they address the **root** causes

- Streamlines internal control reporting by **eliminating** areas of **overlap and duplication**

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Goals of A-123 Update (cont.)

- Provides guidance for **emerging special topics**
  - service organizations
  - management of **fraud** risks
  - maintaining internal control in disaster situations
  - internal control over financial assistance
  - compliance with the Anti-deficiency Act
Government Auditing Standards

- Generally Accepted Government Auditing Standards (GAGAS)
- Yellow Book
- Audit & The Yellow Book
  - a **Detective** Tool
  - and **Deterrent/Prevention** tool

Yellow Book Indicators of Fraud Risk—“Red Flags”

- economic, programmatic, or entity operating conditions threaten the entity's **financial stability**, viability, or budget;
- the nature of the entity's **operations provide opportunities** to engage in fraud;
- management's **monitoring** of compliance with policies, laws, and regulations is **inadequate**;
- the organizational structure is **unstable** or unnecessarily **complex**;
Yellow Book “Red Flags” (cont.)

- communication and/or support for ethical standards by management is lacking;
- management is willing to accept unusually high levels of risk in making significant decisions;
- the entity has a history of impropriety, such as previous issues with fraud, waste, abuse, or questionable practices, or past audits or investigations with findings of questionable or criminal activity;

Yellow Book “Red Flags” (cont.)

- operating policies and procedures have not been developed or are outdated;
- key documentation is lacking or does not exist;
- asset accountability or safeguarding procedures is lacking;
- improper payments;
- false or misleading information;
Yellow Book “Red Flags” (cont.)

- a pattern of *large procurements* in any budget line with remaining funds at *year end*, in order to "use up all of the funds available;" and:

- unusual *patterns and trends* in contracting, procurement, acquisition, and other activities of the entity or program.

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Trust & Confidence in Government—Our Ultimate Goal

- Increasing Transparency & Accountability is How We Do It
  - This is our profession’s ultimate goal
  - This is AGA’s ultimate goal
  - This is *our responsibility*
  - This is *your responsibility*
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Questions?