

As We Wait To Get Started....

A Riddle:

You can easily touch me,

But not see me.

You can throw me out,

But not away.

What am I?

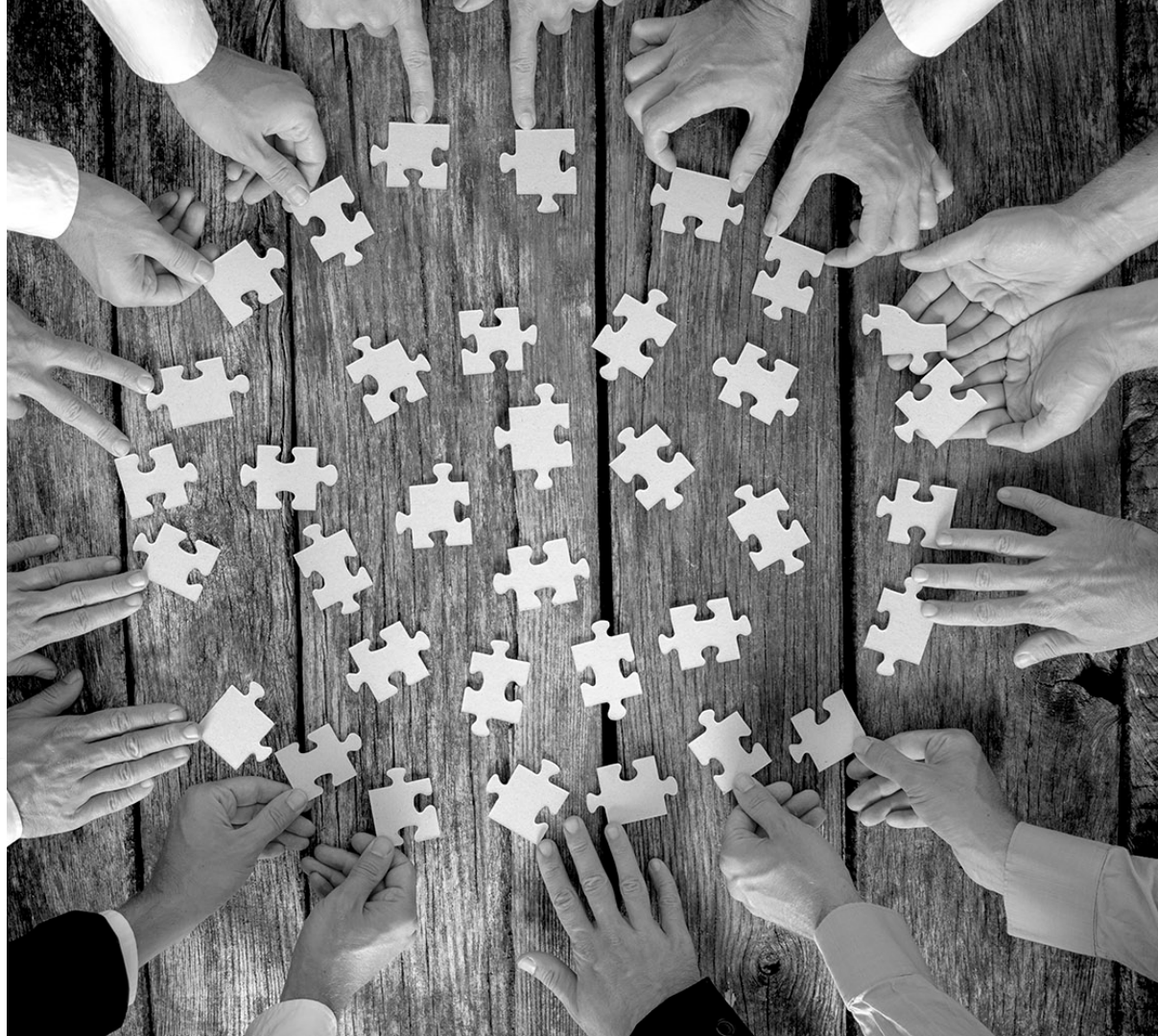
Fraud & Grants

Fraud risk and response
considerations for grants
administration

PRESENTED BY

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Partner, Financial Audit





Webinar Etiquette & Administration

This session is intended to be interactive. Here are a few requests to make that happen:

Mute your line – unless you are asking a question

Camera is optional, most turn off

Use the Chat feature to ask questions, moderator will manage

Files from session are located in Chat

CPE required polling questions must be answered to get credit

~ 60 minutes today depending on level of interaction

Survey will be sent out afterwards

1100+

Associates Firmwide

140+



Partners
& Principals

70

 Years in Business

Ranked as a Top Accounting Firm Across the U.S.

25



\$200M+

Annual Revenue

9 States

& Washington, D.C.



Serving Clients Across the U.S. & Internationally

Founding Member of Baker Tilly International
The **8th Largest Accountancy and Business Advisory Network** in the World
Represented by **796 Offices** in **147 Countries**
Combined Revenue of **\$3.4 Billion**
33,600 Staff Worldwide

About Cherry Bekaert

Local Focus & Expertise

- ▶ Risk Advisory practice based in Raleigh ♦ Regional offices
- ▶ National reach ♦ Local attention
- ▶ Mid-market & public sector focus
- ▶ Big 4 experience, local firm feel
- ▶ Values forward ♦ People centered

CB Risk Advisory

We help organizations leverage their system of internal control to protect value, power performance and build resilience

Learning Objectives

1. Revisit fraud fundamental including fraud taxonomy
2. Provide an overview of the grant administration cycle
3. Grant fraud awareness
4. Explore regulatory requirements stipulated by Uniform Grant Guidance to mitigate
5. Highlight fraud risks and discuss related fraud scenarios
6. Provide an internal control framework that improves risk management and mitigation of related fraud risks

Learning Resources

Federal Offices of Inspectors
General (www.ignet.gov)

ACFE Report to the Nations

Risk assessment template

Transaction or Activity Description	System	Owner	Financial Impact	Volume	Complexity	Judgement	Distance	Decentralization	Changes to PPT	Control Maturity	History of Error	Fraud Risk	Risk Score
P2P Governance													
Approval Hierarchy Approval & Maintenance			L	L	L	L	L	L	L	L	L	L	1.0
Procurement Policy			L	L	L	L	H	L	L	L	L	L	1.9
Procurement Card Policy			L	L	L	H	L	L	L	L	L	L	1.8
Make-Buy Policy			L	L	L	H	L	L	L	L	L	L	1.8
Competitive Sourcing Policy			L	L	L	L	L	H	L	L	L	L	1.8
Conflict of Interest Policy (incl. gifts, gratuities,			L	M	M	M	M	L	H	H	L	L	3.4
Purchasing Policy Training			L	L	L	L	H	L	L	L	L	L	1.8
DFARS 252.244-7001 Purchasing compliance			L	L	L	L	L	L	L	L	L	L	1.0
Vendor Selection													
Request For Proposal			L	L	L	L	L	L	L	L	L	L	1.0
Vendor Proposal Evaluation			L	L	M	L	M	L	L	L	L	L	1.4
Negotiation and documentation (FAR 15.406)			L	L	L	L	L	L	L	M	L	L	1.2
Vendor Validation			L	L	L	L	H	L	H	L	M	L	2.8
Subcontractor quality requirements			L	L	L	L	L	L	L	L	L	L	1.0
Debarred or suspended vendors			L	L	L	L	L	H	L	M	L	L	2.0
Sole source			L	L	L	L	L	L	L	L	L	L	1.0
Contract Award / Vendor Selection			L	L	L	L	L	L	L	L	L	L	1.0
Vendor Contract Administration													
Contract type usage/avoidance			L	L	L	L	L	L	L	L	L	L	1.0
Change orders			L	L	L	L	L	L	L	L	L	L	1.0
Vendor notification/communication			L	L	L	L	L	L	L	L	L	L	1.0
Vendor monitoring			L	L	L	L	L	L	L	L	L	L	1.0



Question #1

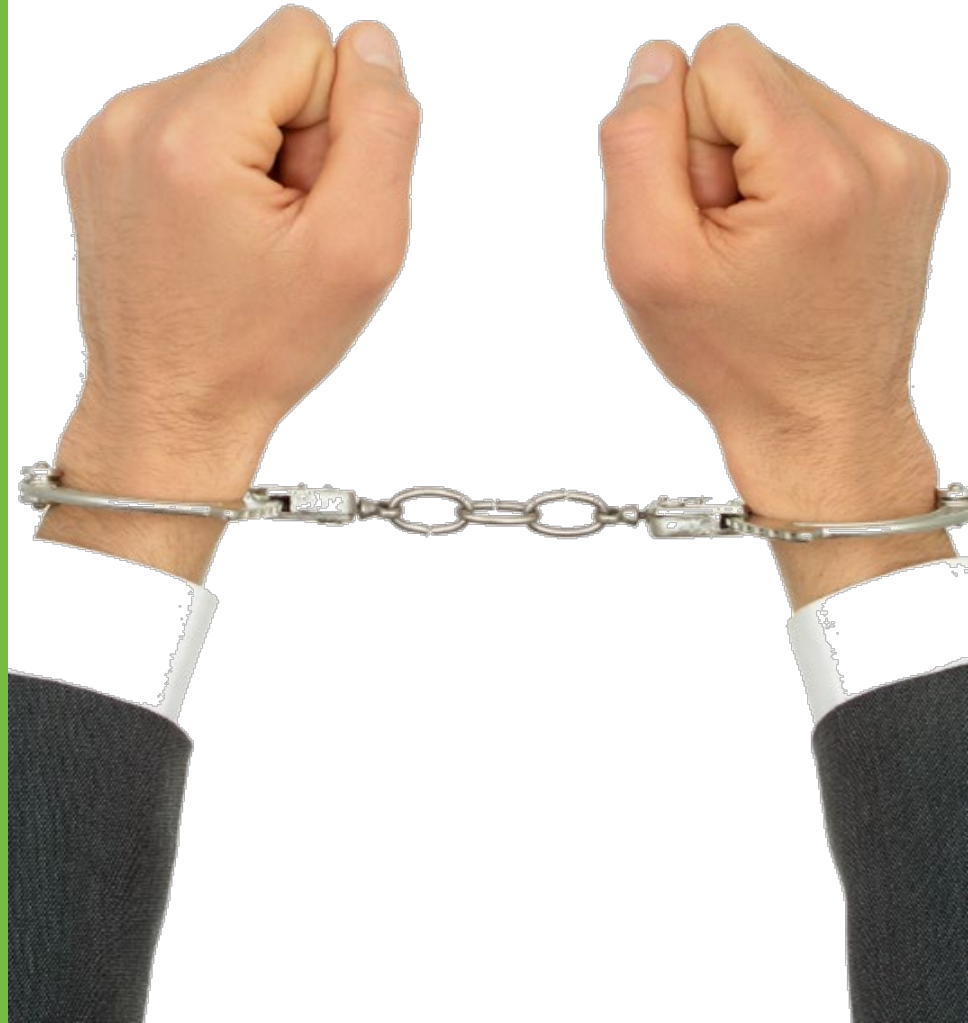


Fraud Risk in Government & Grants

What is Fraud & Abuse?

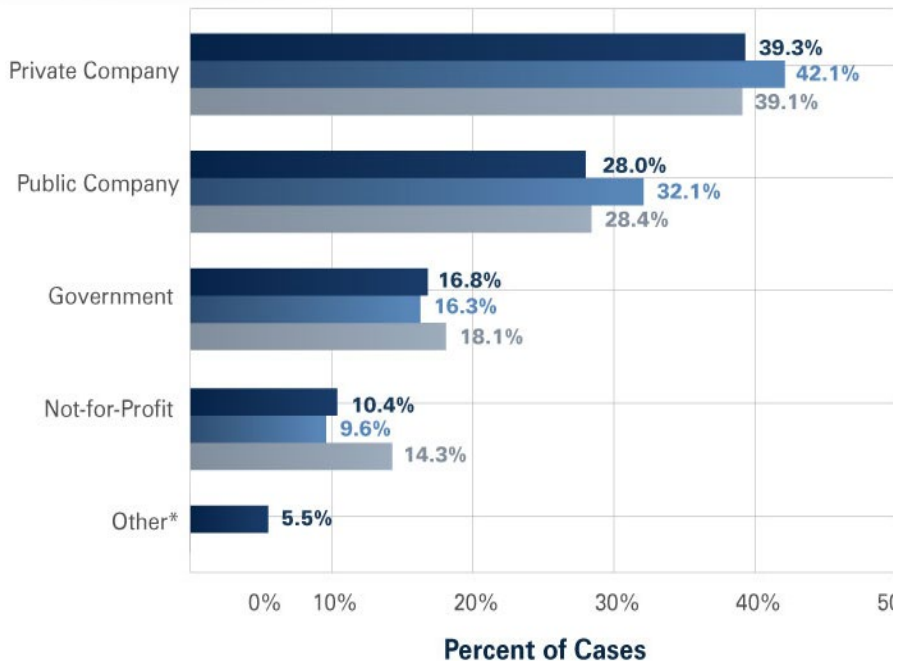
Occupational Fraud

- Deliberate misuse or mis-application of an employing organization's resources or assets
- Different than grant fraud... but relevant for governments



Where Fraud Happens

- ACFE Report to the Nations annual metrics
- Governments account for ~16% of fraud cases evaluated
- 2020 Cares Act infused \$2.2M into economy – how might this affect these figures?

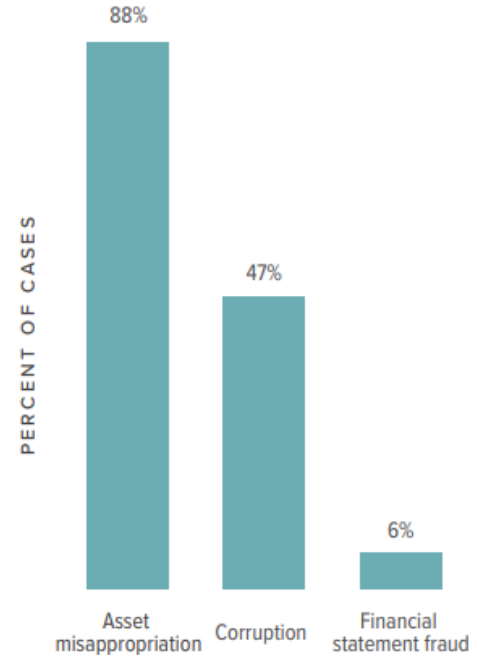


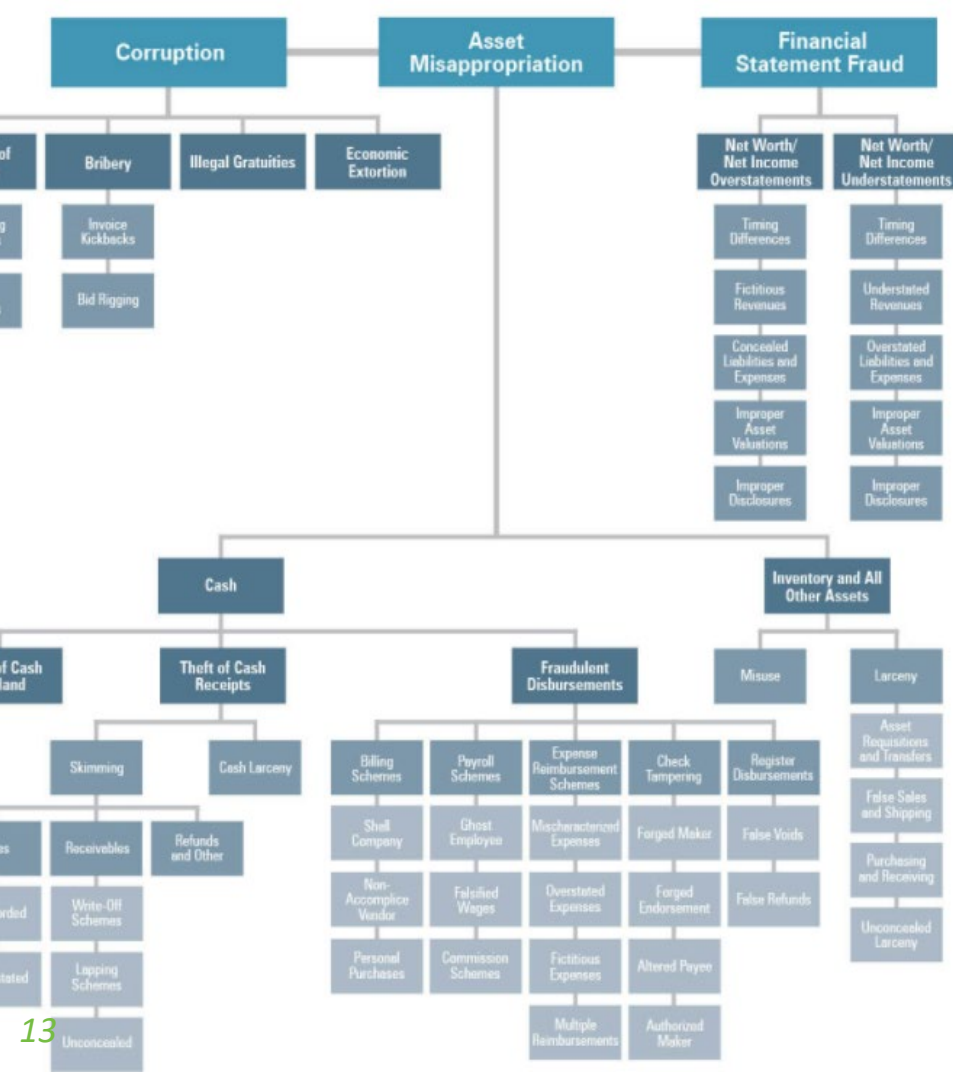
How is Fraud Committed?

ACFE Fraud Risk Taxonomy provides 3 ways:

- Asset Misappropriation
- Corruption Schemes
- Financial Statement Fraud

Where does grant fraud fit into this taxonomy?





ACFE Fraud Taxonomy

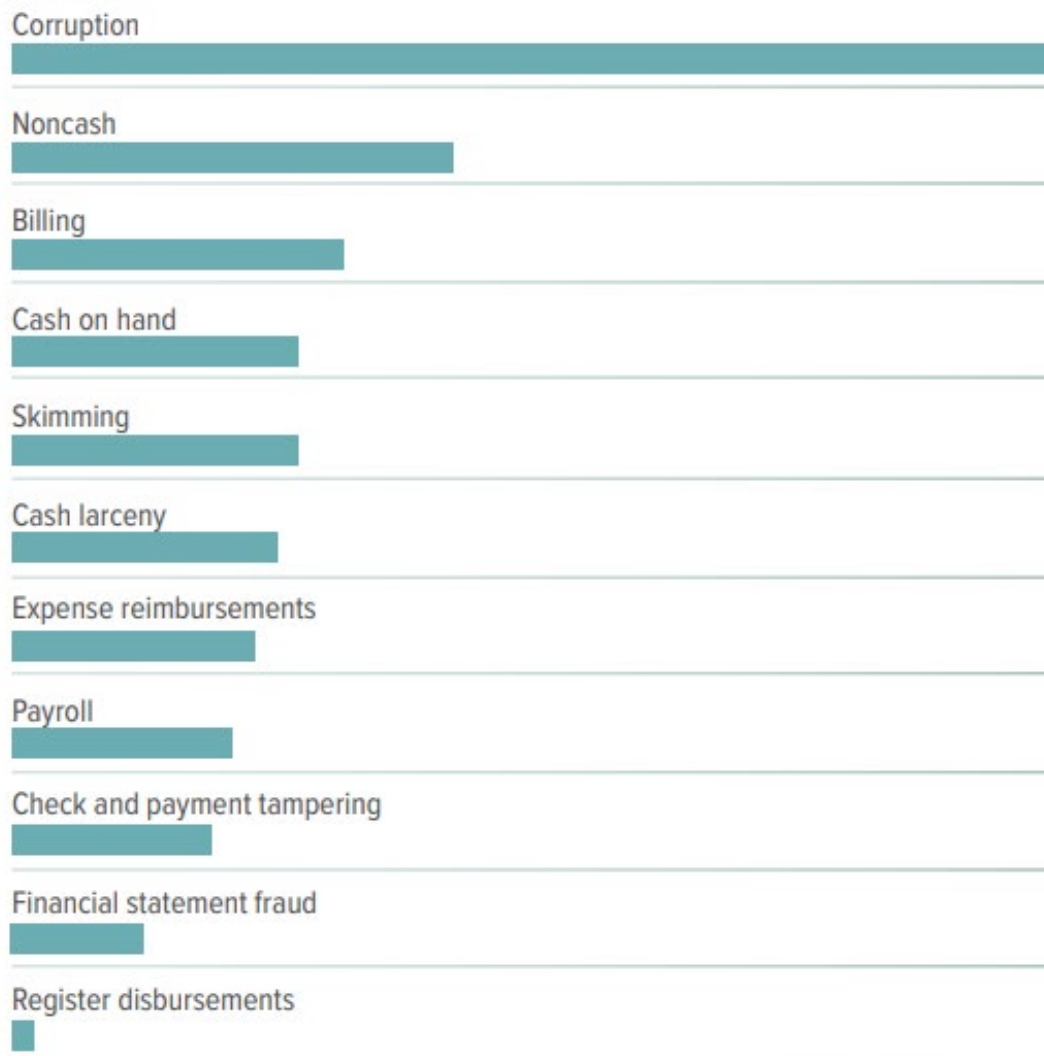
Grant Fraud in Context

- ▶ Considerations may include award, recipient, sub-recipient, and beneficiary
- ▶ Corruption
- ▶ Assess Misappropriation
- ▶ Specific schemes

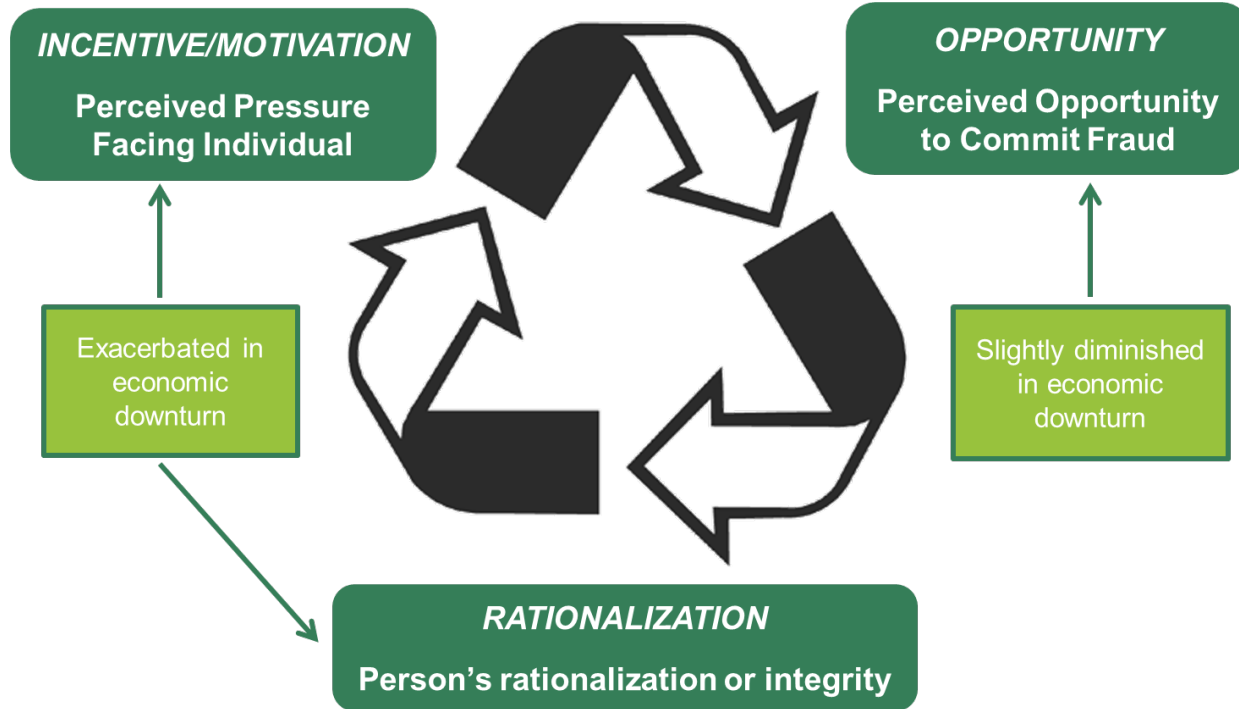
Common Fraud in Government

Corruption & Misappropriation Breakout

- ▶ Corruption
- ▶ Skimming
- ▶ Expenses
- ▶ Payroll

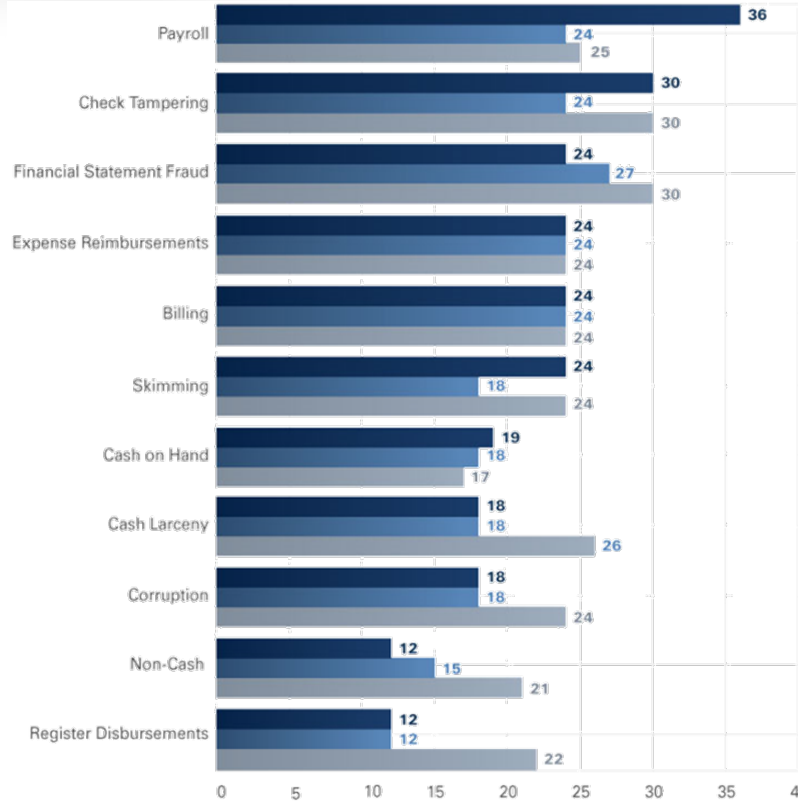


Why is Fraud Committed?



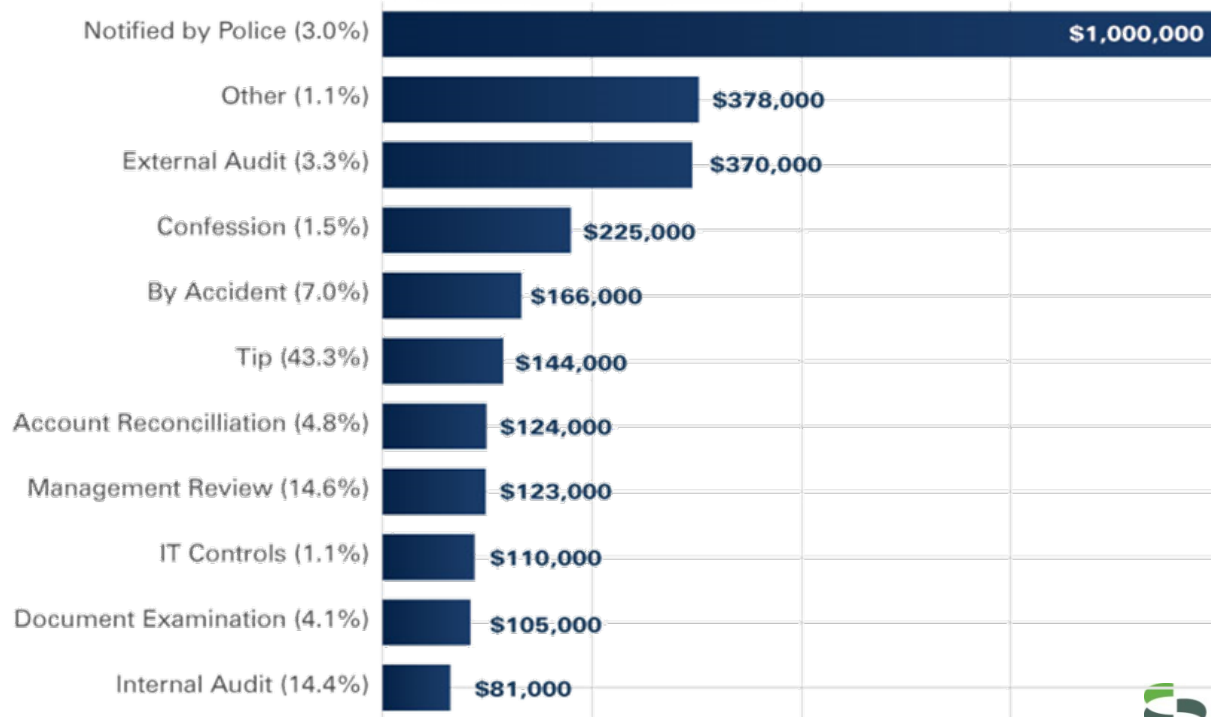
How is Fraud Detected?

- Schemes occur for an average of 18 months before detection
- Top techniques for detection
 - Tip (45%)
 - Internal Audit (15%)
 - Management Review (9%)
 - External Audit (5%)



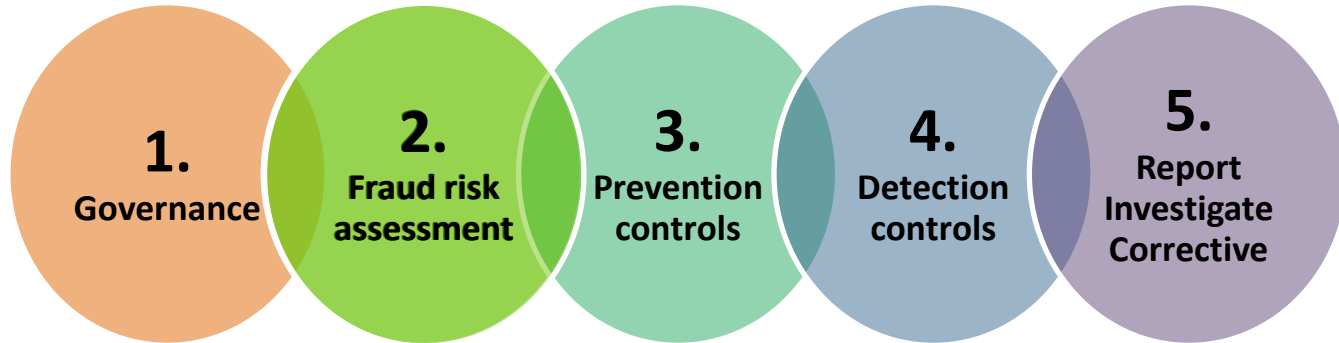
Where are Internal Controls? Only 4%..Why?

Median Loss By Detection Method



5 Key Principles to Manage Fraud

“Trust is not a control and hope is not a strategy”



Polling Question: If you could only accomplish 1 principle what is most important?



Question #2

Uniform Grant Guidance

Key UGG Topics

Internal Controls
200.303

Time and Effort
Reporting
200.430

Financial
Management
System

Subrecipient
Monitoring
200.331

Indirect Costs
200.414

Procurement
200.317-200.326

Financial Mgmt. System

Financial Management System must include:

- ▶ Records that identify the source and application of funds
- ▶ Effective control over, and accountability for all funds & property
- ▶ Comparison of expenditures with budget amounts
- ▶ Written procedures to implement the requirements cash management
- ▶ Written procedures for determining the allowability of costs in accordance with Cost Principles

Internal Control

System of Internal Control Required:

- ▶ Establish and maintain effective internal control over the Federal award
- ▶ Provides reasonable assurance that the non-federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award
- ▶ No specific stipulations. Should comply with GAO Green Book, COSO.
- ▶ Focus Areas: Procurement, Disbursement, GL, Monitoring, Reporting

Recall the lower fraud detection rates using internal control....

Monitoring & Reporting

Oversight of subrecipient/subaward for compliance:

- ▶ Non-federal entity is responsible for monitoring programs for compliance and performance expectations
- ▶ Evaluate each subrecipient's risk of noncompliance with Federal statutes, regulations, and the terms and conditions
- ▶ Perform reporting on grant activity and performance/outcome no less than quarterly
- ▶ Important: policies/contracts, training, evidence, outcome metrics

Recall the lower fraud detection rates using internal control...

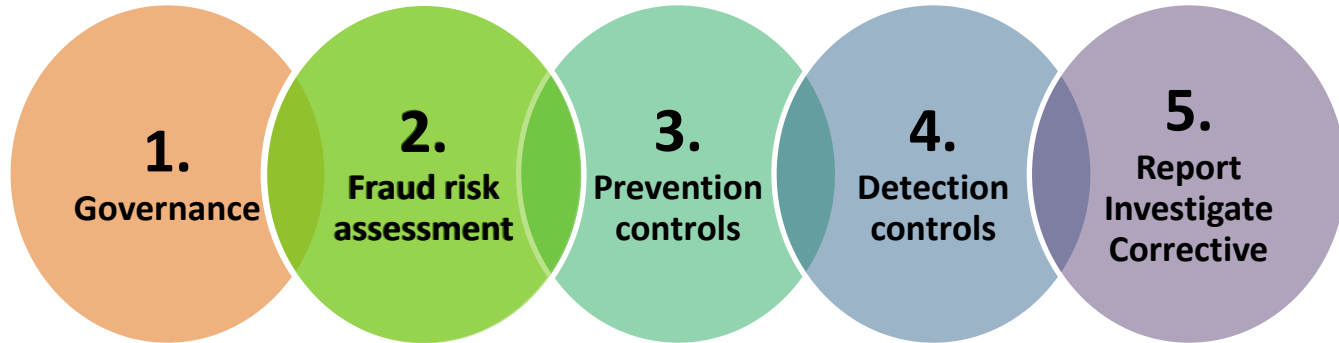


Question #3

Fraud Risk Management Techniques

5 Key Principles to Manage Fraud

“Trust is not a control and hope is not a strategy”





Risk

COSO ERM 2017 & ISO 31000

Risk is the possibility that events will *occur* and *affect* the achievement of objectives

Risk is the effect of uncertainty on objectives

What is the Risk?

Wet Floor

Fall Down

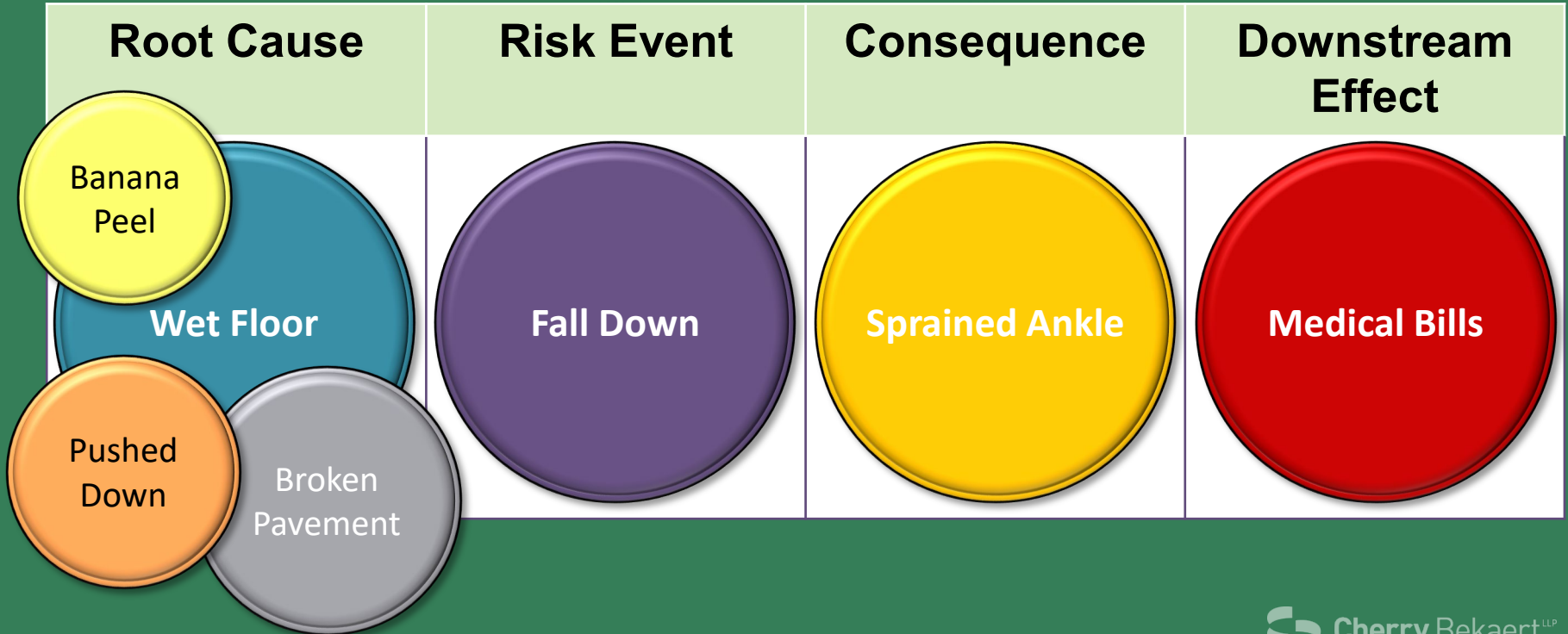
Sprained Ankle

Medical Bills



Question #4

What is the Risk?



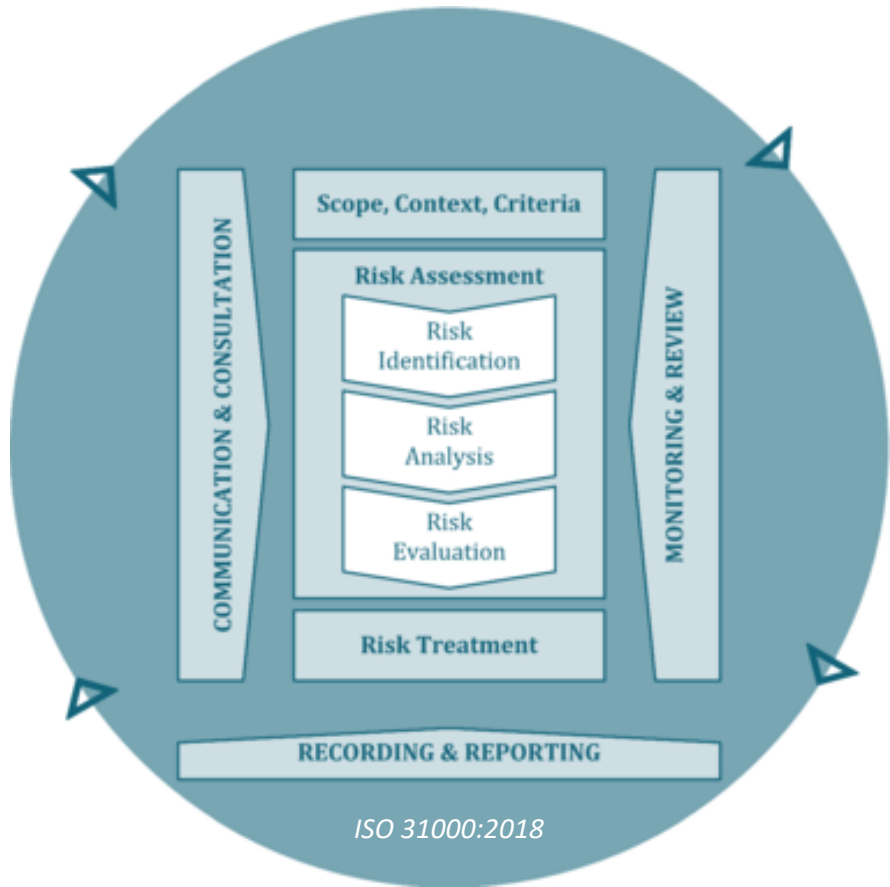


Risk

COSO ERM 2017 & ISO 31000

Risk is the possibility that events will *occur* and *affect* the achievement of objectives

Risk is the effect of uncertainty on objectives



Risk Assessment

Risk assessment is the overall process of risk identification, risk analysis and risk evaluation.

Risk assessment should be conducted systematically, iteratively and collaboratively, drawing on the knowledge and views of stakeholders.

ISO 31000:2018

Risk Assessment Spectrum



Enterprise Risk
Management



Activity Level Risk
Assessment



Risk Assessment Objectives

- Develop and maintain clear understanding grant administration processes
- Facilitate shared perspective on grant administration risk
- Subjectively identify risk exposure and internal control gaps
- Rationalize the system of internal control
- Communicate risk & control perspectives to personnel

Risk Assessment Outcomes

Understanding
of key business
processes and
systems

Measurement
of risks and
control
maturity

Assessment
of risk exposure
and internal
control gaps

Steps in the Risk Assessment

Activity Description	Type	Volume	Complexity	Judgement	Location	Decentralization	Personnel	Fraud	Risk Score
Employee Master Maintenance									
New hire setup	Proc	H	L	L	L	L	L	H	3.3
Termination	Proc	M	L	L	M	L	L	M	1.9
Retirement	Proc	L	M	L	L	L	L	L	1.3
Inactivation (Seasonal Employees)	Proc	M	L	L	M	L	L	L	1.6
Promotions and demotions	Proc	H	L	L	L	L	L	L	2.1
Probation maintenance	Proc	M	L	L	L	L	L	L	1.3
Department transfers	Proc	M	L	L	L	L	L	L	1.3
Status change (Part Time, Full Time)	Proc	L	L	L	L	L	L	L	1.0
Wage adjustment	Proc	M	M	L	L	L	L	H	2.7
In-class wage adjustment	Proc	L	M	L	L	L	L	H	2.4
Address change	Proc	H	L	L	L	L	L	L	2.1
Qualified benefit changes	Proc	M	L	L	L	L	L	L	1.3
Open enrollment benefit maintenance	Proc	H	L	L	L	L	L	L	2.1
Employee manager maintenance	Proc	M	L	L	L	L	L	L	1.3
JDE division maintenance	Proc	L	L	L	L	L	L	L	1.0
Proximity card provisioning	Proc	M	L	L	L	L	L	M	1.6
Proximity card replacement	Proc	L	L	L	L	L	L	L	1.0
Shared PTO management	Proc	L	L	L	L	L	L	M	1.3
Grade and level maintenance	Proc	H	L	L	L	L	L	H	3.3
Annual pay rate implementation	Proc	H	M	L	L	M	L	H	3.9

1. Agree on risk criteria
2. Catalog specific grant administration
3. Characterize risks and control maturity in workshop sessions
4. Evaluate risk exposures and potential control gaps
5. Incorporate results into risk management response

1. Define Your Risk Criteria

Risk criteria used as proxy for risk events and root causes...

- Nature and type of uncertainties that can affect objectives
- Impact and likelihood definitions
- Relative importance or weight of risk criteria
- Mutual agreement on level of perceived risk (ratings)
- How combinations of risks are considered
- Maturity of controls that mitigate risk

Example Risk Criteria

- Financial Impact (Materiality)
- Mission Impact
- Complexity / Subjectivity
- Regulatory
- Volume
- 3rd Party Reliance
- Control Maturity
- Change (People, Process, Tech)
- Distance (from HQ), Centralization
- History of Error
- Fraud (inherent)
- *Level of Effort*
- *Relative Importance*
- *Funding (Appropriated, Billed, etc.)*

Tailor Criteria To Fit Program Mission, Objectives, and Operations

Characterizing Risk Using Risk Criteria

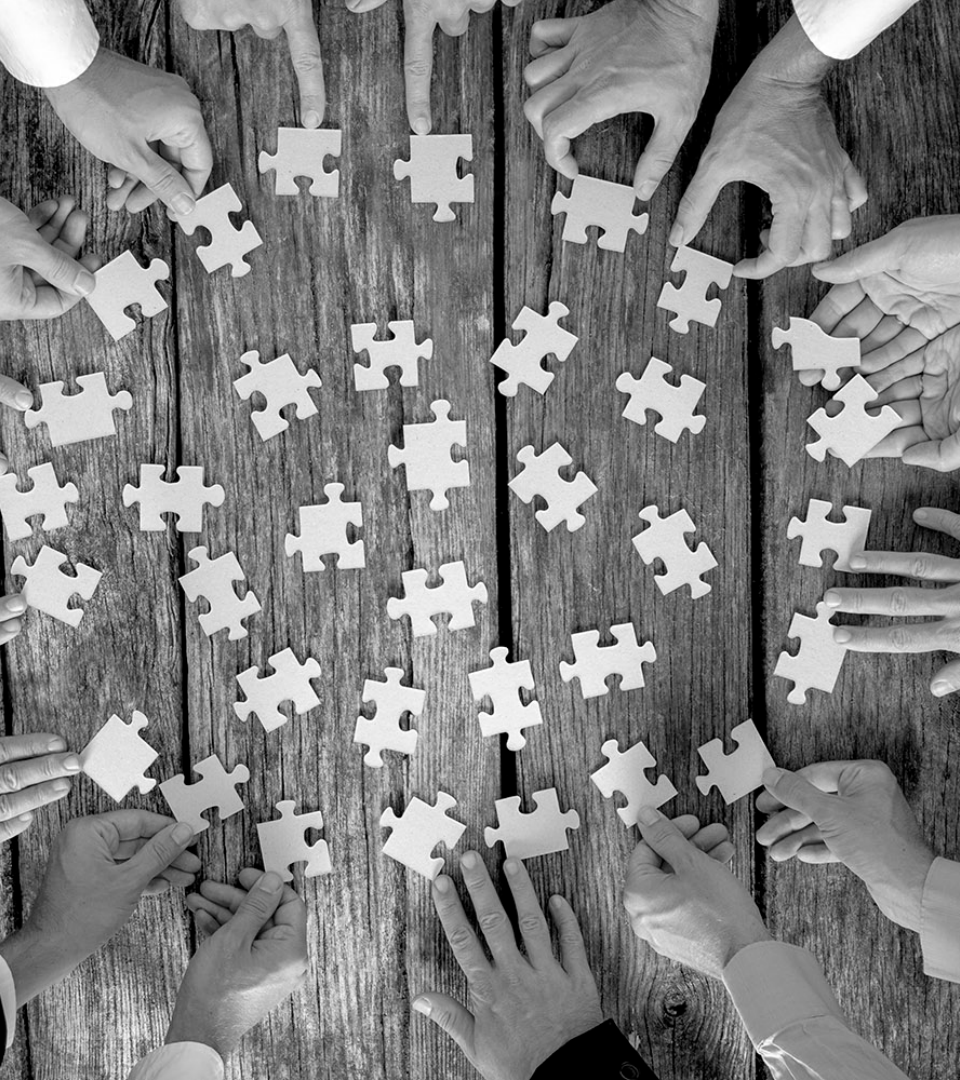
Risk Factor	Suggested Guidelines	Relevant Weight
Complexity	<p>Complexity as a function of financial statement data compilation or technical knowledge involved in determination of financial statement amount.</p> <p>Low = Routine, complex systems based processing</p> <p>Medium = Routine, complex process involving significant judgment/experience/knowledge</p> <p>High = Non-routine/Estimation, complex processing involving significant judgment/subjectivity/experience/knowledge</p>	High
Central	<p>The concentration of control of an activity or organization under standard uniform control policy & procedures</p> <p>Low = Centralized shared service center under uniform control policies and procedures.</p> <p>Medium = Regional shared services centers under uniform control policies however, people and technology use may vary</p> <p>High = Decentralized - people, process and/or technology are different</p>	Low
Change	<p>Change in business systems, personnel involved or new class of transactions</p> <p>Low = Change in single non management process owner personnel</p> <p>Medium = Change in multiple personnel affecting low and medium risk areas</p> <p>High = Change in business systems or new class of transactions or key process owner e.g., cost accounting manager etc.</p>	Low
Distance	<p>Distance from Corporate HQ and degree of senior management oversight</p> <p>Low = primary location of process is at HQ</p> <p>Medium = significant amount of process or class of transactions are affected overseas</p> <p>High = material amount of process or class of transactions are affected overseas</p>	Low
History	<p>Time and results of last audit</p> <p>Low = few exceptions or minor control deficiencies identified in PY audits</p> <p>Medium = several exceptions or control deficiencies identified in PY audits</p> <p>High = significant findings noted in PY audits</p>	Low
Volume	<p>Number of transactions in a given period</p> <p>Low = Annually</p> <p>Medium = Quarterly/Monthly</p> <p>High = Weekly/Daily</p>	Low
Control Maturity	<p>Perception or knowledge of control maturity and operation</p> <p>Formal = Controls are well defined and documented</p> <p>Repeatable = Controls established with some policy structure, no process documentation. Some ambiguity</p> <p>Informal = Controls are fragmented and ad hoc; generally managed in silos</p>	High



2. Define Process

Model the Full Grant Process

- ▶ Ensures completeness of the risk assessment
- ▶ Includes all functions, departments, programs
- ▶ Incorporate key stakeholders across the organization
- ▶ Defines owners and systems



Step 3. Risk & Control Workshops

Collaborative Risk & Control

1. Facilitated interviews to validate process model, processes, systems and accountability
2. Characterize activities (processes, programs, functions) using agreed upon risk criteria
3. Capture detail, subjective information to support risk characterization
4. Achieve buy-in on risk and control maturity characterization

Two Views of Risk Management

Compliance View

- ▶ **Compliance** drives motives (“We have to do it”)
- ▶ **Reacting** to issues produces wrong motives:
 - People don’t buy in
 - Poorly designed controls
 - Not sustainable

Risk View

- ▶ **Risk management** improves performance (“We should do it”)
- ▶ **Managing risks to objectives** creates the right motives:
 - Better-designed controls
 - Management buy in
 - Sustainable processes

When risk management makes sense, one of the de facto byproducts is regulatory compliance



4. Evaluate Risk Exposures & Gaps

Analyze Results & Formulate Response

- ▶ Assessment results highlight risk exposure & control maturity
- ▶ Look for: high risk & low maturity
- ▶ Develop your risk perspectives
- ▶ Corroborate with senior leaders



5. Risk Response

Organization-wide response to risk perspectives

- ▶ Management response
 - Internal controls
 - Process changes
 - Training
- ▶ Internal Audit

4 Ways to Respond To Risk

1.

Internal
Control

2.

Risk
Avoidance

3.

Risk
Sharing

4.

Risk
Acceptance



Focus on Detection Using Data Analytics

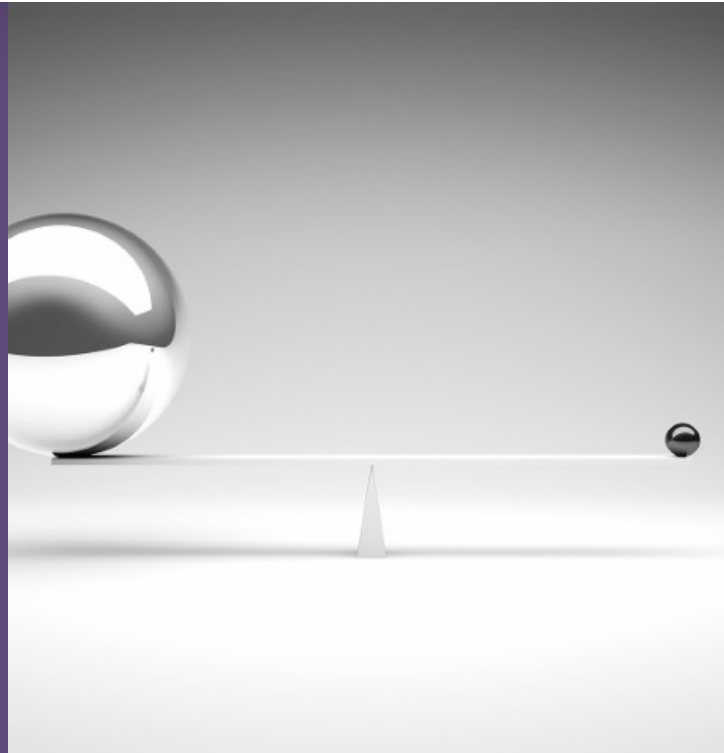
Risk Analytics

Get leverage by monitoring key risks using data

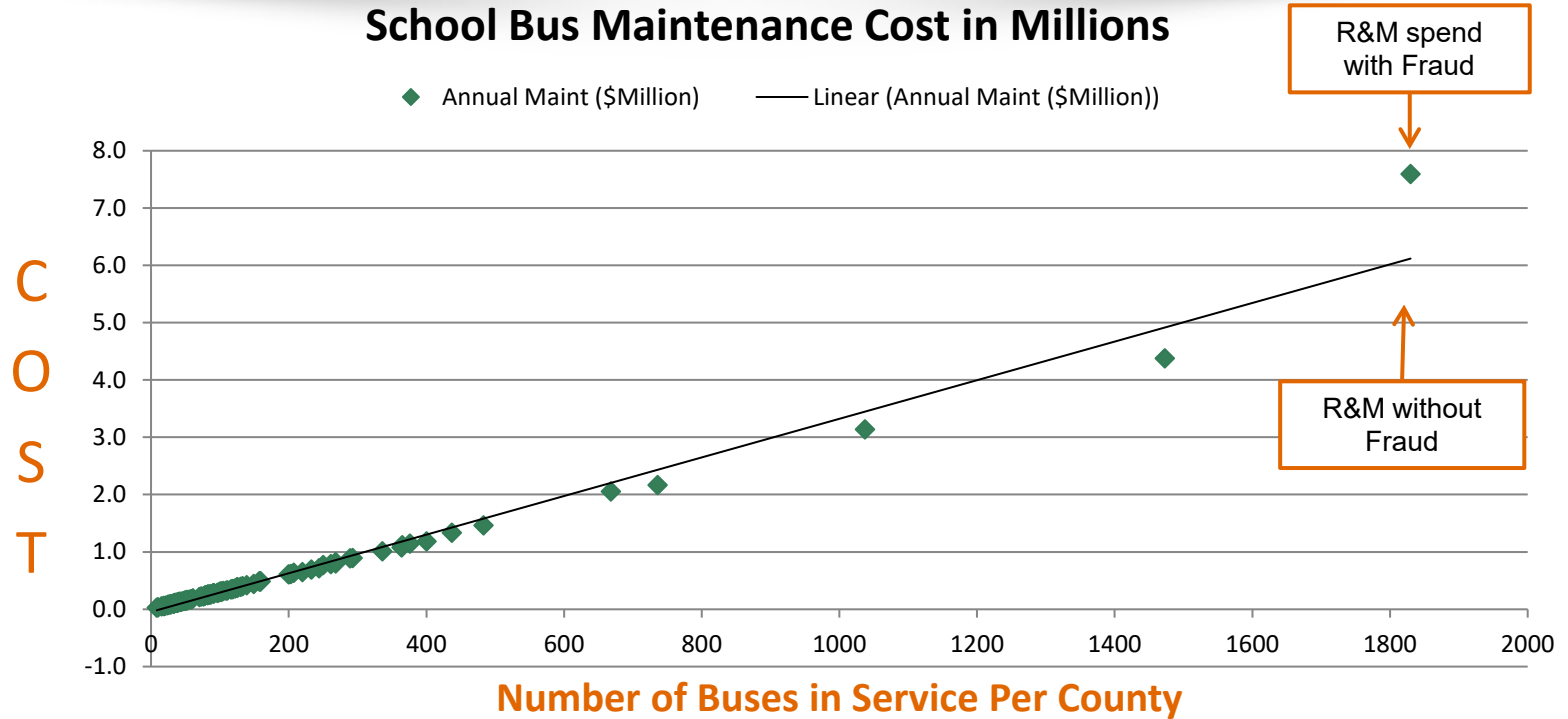
Cover more risks with fewer resources

KRIs, audit by exception, dashboard & self-service drill-down

Tools accessible and affordable



Data Analytics Detect Irregularities



Data Analytics Helps Uncover Truth

Sheriff on SBI Investigation: 'This is Serious'

The State Bureau of Investigation (SBI) on Monday evening took control of County government offices as agents investigated alleged criminal activity.

The press was tipped off in advance of the SBI raid which coincided with the County Commissioners monthly public meeting.

"At the end of this investigation, I'm going to be surprised if someone is not going to jail in this situation," the Sheriff said to the press. "This is serious."

"He said the case has the potential to be bigger than the one that sent former County Manager to jail for embezzling more than \$250,000 dollars."

