



# Federal fraud risk management

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**The new A-123 released on July 15, 2016, requires federal managers to regularly conduct a fraud risk assessment.<sup>1</sup>**

Defrauding government programs is big business, and government leaders are under increasing pressure to reduce or eliminate fraud, waste, abuse, misconduct, and improper payments (collectively referred to as FWA) impacting federal programs. Congress, Office of Management and Budget, taxpayers, Inspectors General, and the U.S. Government Accountability Office (GAO) are demanding better fraud reduction results and more accountability from federal officials, as evidenced by recent changes and updates to federal internal controls requirements, standards, and guidance.

GAO's *Standards for Internal Control in the Federal Government* (the Green Book), released in September 2014, introduced five components and 17 principles of internal control that were designed, among other things, to assist government program managers with "improving accountability in achieving an entity's mission."<sup>2</sup> One of those principles requires that management consider the potential for fraud when identifying, analyzing, and responding to risks. Additionally, OMB released the final version of the new Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, on July 15, 2016 (Circular or new A-123).<sup>3</sup> Among other things, the new A-123 requires agencies (unless specifically exempted) to implement a fraud risk management (FRM) program that includes a regularly performed fraud risk assessment.<sup>4</sup> The Circular states that agencies should adhere to the guidance GAO released in July 2015, *A Framework for Managing Fraud Risks in Federal Programs* (GAO Framework).<sup>5</sup> The stated objective of the GAO Framework is to "identify leading practices and to conceptualize these practices into a risk-based framework to aid program managers in managing fraud risks."<sup>6</sup>

A reputation for program integrity is critical to increasing and safeguarding public trust in governmental programs and officials, and now compliance with the new A-123. Not only is a fraud risk assessment required for compliance with the new A-123, but it is good practice for a strong FRM program and can help guide data driven fraud prevention activity and controls. If not properly managed, FWA will seriously undermine your program and could lead to being included on GAO's High Risk List, IPERA High-Error Programs List, and additional public scrutiny.



Source: GAO. | GAO-15-593SP 2015

- GAO's Framework identifies four overarching concepts including:
- 1. Commit** – Commit to combating fraud by creating an organizational culture and structure conducive to FRM.
  - 2. Assess** – Plan regular fraud risk assessments and assess risks to determine a fraud risk profile.
  - 3. Design and implement** – Design and implement a strategy with specific control activities to mitigate assessed fraud risks and collaborate to help ensure effective implementation.
  - 4. Evaluate and adapt** – Evaluate outcomes using a risk-based approach and adapt activities to improve FRM.

**"Fraud poses a significant risk to the integrity of federal programs and erodes public trust in the government." — Government Accountability Office**

# KPMG can help

KPMG LLP (KPMG) has helped hundreds of clients around the globe in the commercial and government sectors with identifying fraud risks and in preventing and detecting program fraud. For over a decade, KPMG has helped leaders by utilizing our Global Fraud Risk Management Methodology (KPMG's FRM Methodology), which was developed to guide our practitioners to assist leaders in their continuous efforts to prevent, detect, and respond to FWA. KPMG's FRM Methodology includes the design, implementation, and evaluation of applicable programs and controls. KPMG's FRM Methodology fits hand in glove with GAO's Framework, enabling us to offer over a decade of meaningful, directly applicable experience working with leaders in applying a thorough framework.

GAO's requirements are extensive, and KPMG recognizes that not every program may need full programmatic assistance—your program may already have some or many of the elements to meet GAO's requirements. KPMG's services are designed to be targeted, scalable, and tailored to your program's needs. Accordingly, KPMG can help determine where gaps may exist, and help fill those gaps.

Also, KPMG understands that program managers may perceive a conflict between prioritizing fraud prevention and detection, which some fear may impede program delivery. KPMG's approach, however, carefully considers this dilemma and is designed to assist program managers with facilitating the program's core mission while protecting the taxpayers' interests in achieving antifraud goals.

To that end, KPMG's FRM services are aimed at helping leaders in their efforts to achieve three core objectives that are at the heart of GAO's Framework:

- **Prevent** instances of potential FWA from occurring in the first place.
- **Detect** potential instances of FWA quickly when they do occur.
- **Respond** appropriately and take corrective action when potential instances of FWA are detected.

**"The government has made it plain that all program managers should design, implement, and evaluate effective compliance programs and that 'paper tiger' programs and 'check-the-box' compliance exercises will fail to meet an effectiveness standard. "**  
**— Tim Hedley, Global Lead for KPMG's Fraud Risk Management service offerings**

KPMG brings the "know-how" to these objectives by working with leaders to design, implement, and/or evaluate antifraud and integrity programs. Our services include, but are not limited to the following:

- Conducting a meaningful fraud risk assessment, which includes identifying, assessing, and evaluating fraud risks
- Evaluating the existing controls
- Eliminating ineffective controls
- Designing and implementing enhanced controls and activities
- Assigning responsibilities, building competencies, and deploying resources.

Specifically, we will leverage KPMG's FRM Methodology to assess your program's current state and assist with implementing GAO's identified leading practices.

**"Managers of government programs maintain the primary responsibility for enhancing program integrity... Our work has shown the opportunities exist for federal managers to take a more strategic, risk-based approach to managing fraud risks and developing effective antifraud controls."**  
**— Government Accountability Office**

<sup>1</sup> The new A-123 states that Federal agencies "should" implement these requirements, which "indicates a presumptively mandatory requirement except in circumstances where the requirement is not relevant for the Agency." Office of Management and Budget, *OMB Circular No. A-123, Management's Responsibility for Enterprise Risk Management and Internal Control*, July 16, 2016.

<sup>2</sup> Ibid.

<sup>3</sup> U.S. GAO, *Standards for Internal Control in the Federal Government*, September 2014, GAO-14-704G.

<sup>4</sup> See supra, footnote 1.

<sup>5</sup> U.S. GAO, *A Framework for Managing Fraud Risks in Federal Programs*, July 2015, GAO-15-593SP.

<sup>6</sup> Ibid.

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KPMG supports hundreds of networks and specializations, which includes our Forensic practice, comprising nearly 800 professionals with degrees and certifications such as PhDs, MBAs, CPAs, JDs, LLMS, CFEs, CAMS, and CFFs. Our practitioners are experienced in conducting a wide variety of FRM services.

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