

College and University Auditors of Virginia

2025 Annual Conference

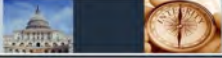
# ***Fraud Risk Management***

1

**Dave Cotton, CFE, CPA, CGFM**

**dave@cottoncfe.com**

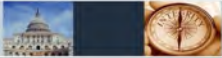
## **Disclaimer**



**The views expressed in this presentation are my views and do not necessarily align with the views of the Virginia Board of Accountancy.**

1

## **Pre-Quiz**



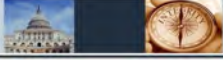
**True or False**

2

2

## 2025 Annual Conference

### Is there any fraud at Virginia colleges?

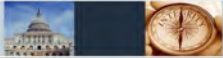


The image shows two Google search results. The first search is for "fraud & college" and shows approximately 248,000,000 results. The second search is for "fraud & college & virginia" and shows approximately 36,900,000 results. Both search results include the Google logo, search bar, filters (All, Images, News, Videos, Short videos, Maps, Forums, More), and a "Tools" button.

3

3

### Is there any fraud at Virginia universities?

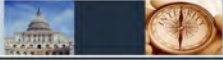


The image shows two Google search results. The first search is for "fraud & university" and shows approximately 337,000,000 results. The second search is for "fraud & university & virginia" and shows approximately 37,300,000 results. Both search results include the Google logo, search bar, filters (All, Images, News, Maps, Short videos, Videos, Forums, More), and a "Tools" button.

4

4

## Bad News: Fraud Can Be Devastating, Even Catastrophic

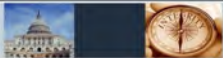


[Source: ACFE 2024 Report to the Nations]

5

5

## Bad News: Fraud Can Be Devastating, Even Catastrophic

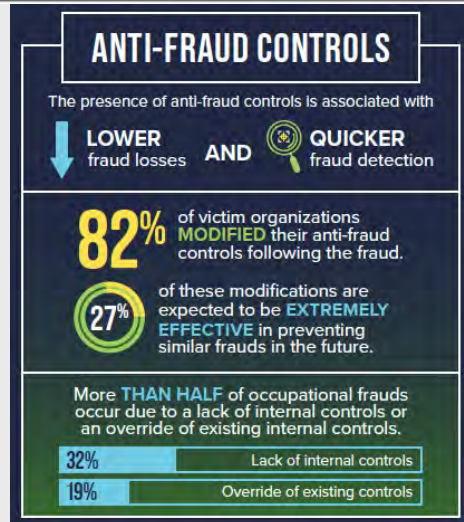
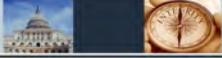


[Source: ACFE 2024 Report to the Nations]

6

6

## Good News: Fraud Risk Can Be Managed

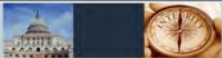


[Source: ACFE 2024 Report to the Nations]

7

7

## The ACFE/COSO Fraud Risk Management Guide

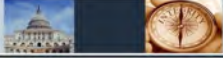


- A short history: COSO, internal control, enterprise risk management, and fraud risk management
- The big picture: principles, standards, and leading practices
- FRMG overview
- The 2023 Update Task Force
- What has not changed
- Major changes
- Fraud risk management tools
- Be part of the antifraud effort

8

## 2025 Annual Conference

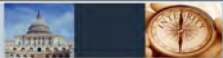
### A short history: COSO, internal control, enterprise risk management, and fraud risk management



- 1985: Committee of Sponsoring Organizations of the Treadway Commission
- 1987: Treadway Commission Report
- 1992: Internal Control—Integrated Framework

9

### Very little emphasis on fraud



**Focus was on:**

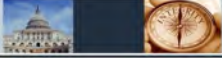
- Economy and efficiency of operations, including safeguarding of assets and achievement of desired outcomes;
- Reliability of financial and management reports; and
- Compliance with laws and regulations.

10

10

## 2025 Annual Conference

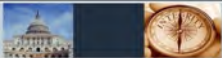
### A short history: COSO, internal control, enterprise risk management, and fraud risk management



- 1985: Committee of Sponsoring Organizations of the Treadway Commission
- 1987: Treadway Commission Report
- 1992: Internal Control—Integrated Framework
- 1992-2001: COSO IC Framework gained broad recognition
- 2002: SOX section 404 mandated establishing/reporting on IC
- 2002-2012: COSO IC Framework gained global recognition

11

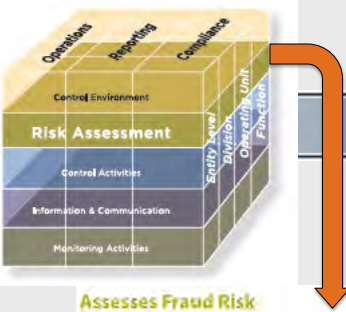
### A short history: COSO, internal control, enterprise risk management, and fraud risk management



- 2004: COSO Enterprise Risk Management Framework
- 2013: COSO Internal Control—Integrated Framework
  - Principle 8: Consider fraud when assessing risks

12

## 2025 Annual Conference



**Assesses Fraud Risk**

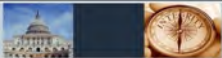
**Principle 8: The organization considers the potential for fraud in assessing risks to the achievement of objectives.**

**Points of Focus**  
The following points of focus highlight important characteristics relating to this principle:

- **Considers Various Types of Fraud**—The assessment of fraud considers fraudulent reporting, possible loss of assets, and corruption resulting from the various ways that fraud and misconduct can occur.
- **Assesses Incentive and Pressures**—The assessment of fraud risk considers incentives and pressures.
- **Assesses Opportunities**—The assessment of fraud risk considers opportunities for unauthorized acquisition, use, or disposal of assets, altering of the entity's reporting records, or committing other inappropriate acts.
- **Assesses Attitudes and Rationalizations**—The assessment of fraud risk considers how management and other personnel might engage in or justify inappropriate actions.

13

### A short history: COSO, internal control, enterprise risk management, and fraud risk management



- 2004: COSO Enterprise Risk Management Framework
- 2013: COSO Internal Control—Integrated Framework
  - Principle 8: Consider fraud when assessing risks
- 2014: ACFE/COSO Fraud Risk Management task force

14

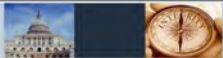


## 2025 Annual Conference

<b>Joint ACFE-COSO Task Force</b>			
 <b>Barbara Andrews</b> AICPA	<b>Bert Edwards</b> Formerly State Department	<b>Bill Leone</b> Norton Rose Fulbright	<b>Jeffrey Steinhoff</b> KPMG
<b>Michael Birdsall</b> Comcast Corporation	<b>Frank Faist</b> Charter Communications	<b>Andi McNeal</b> ACFE	<b>William Titera</b> Formerly EY
<b>Toby Bishop</b> Formerly ACFE, Deloitte	<b>Eric Feldman</b> Affiliated Monitors, Inc.	<b>Linda Miller</b> GAO	<b>Michael Ueltzen</b> Ueltzen & Company
<b>Margot Cella</b> Center for Audit Quality	<b>Dan George</b> USAC	<b>Kemi Olateju</b> General Electric	<b>Pamela Verick</b> Protiviti
<b>David Coderre</b> CAATS	<b>John D. Gill</b> ACFE	<b>Chris Pembroke</b> Crawford & Associates, PC	<b>Vincent Walden</b> EY
<b>David L. Cotton, Chair</b> Cotton & Company LLP	<b>Leslye Givarz</b> Formerly AICPA, PCAOB	<b>J. Michael Peppers</b> University of Texas	<b>Bill Warren</b> PwC
<b>James Dalkin</b> GAO	<b>Cindi Hook</b> Comcast Corporation	<b>Kelly Richmond Pope</b> DePaul University	<b>Richard Woodford</b> U.S. Coast Guard Investigative Service
<b>Ron Durkin</b> Durkin Forensic, Inc.	<b>Sandra K. Johnigan</b> Johnigan, PC	<b>Carolyn Devine Saint</b> University of Virginia	

15

### A short history: COSO, internal control, enterprise risk management, and fraud risk management



- 2004: COSO Enterprise Risk Management Framework
- 2013: COSO Internal Control—Integrated Framework
  - Principle 8: Consider fraud when assessing risks
- 2014: ACFE/COSO Fraud Risk Management task force
- 2015: GAO Fraud Risk Management Framework

16

## 2025 Annual Conference



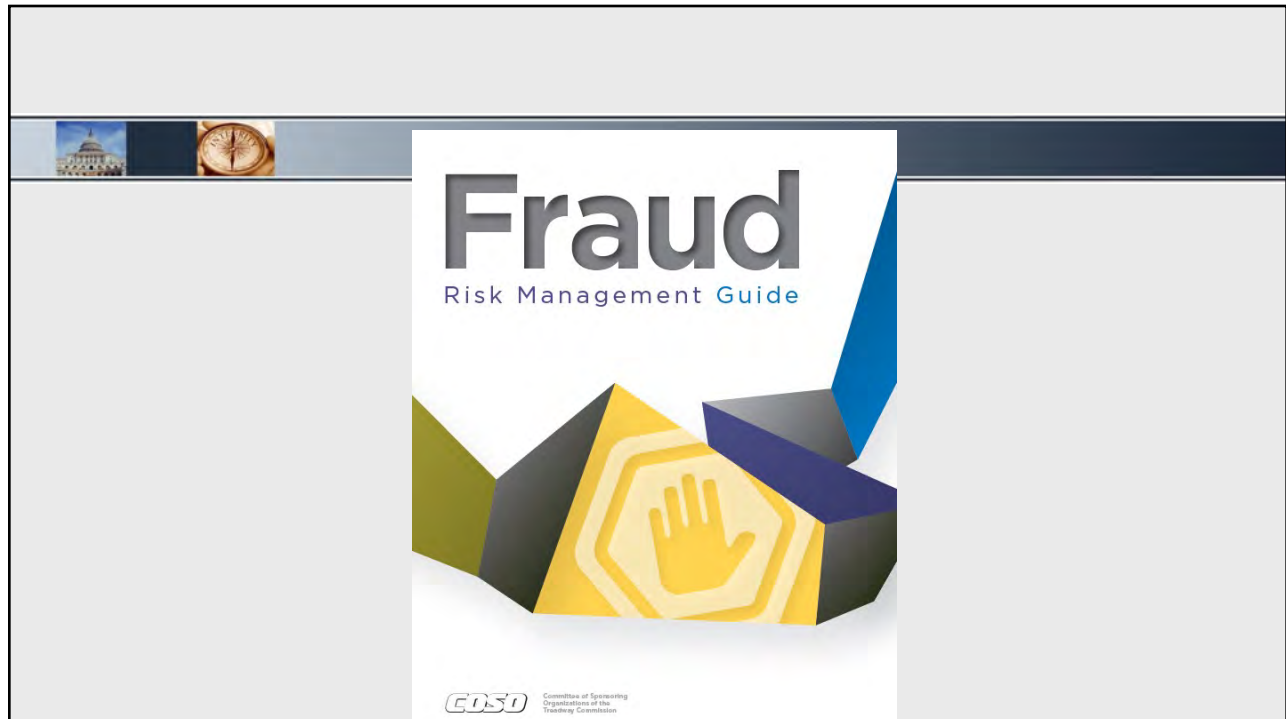
17

### A short history: COSO, internal control, enterprise risk management, and fraud risk management

- 2004: COSO Enterprise Risk Management Framework
- 2013: COSO Internal Control—Integrated Framework
  - Principle 8: Consider fraud when assessing risks
- 2014: ACFE/COSO Fraud Risk Management task force
- 2015: GAO Fraud Risk Management Framework
- 2016: ACFE/COSO Fraud Risk Management Guide

18

## 2025 Annual Conference



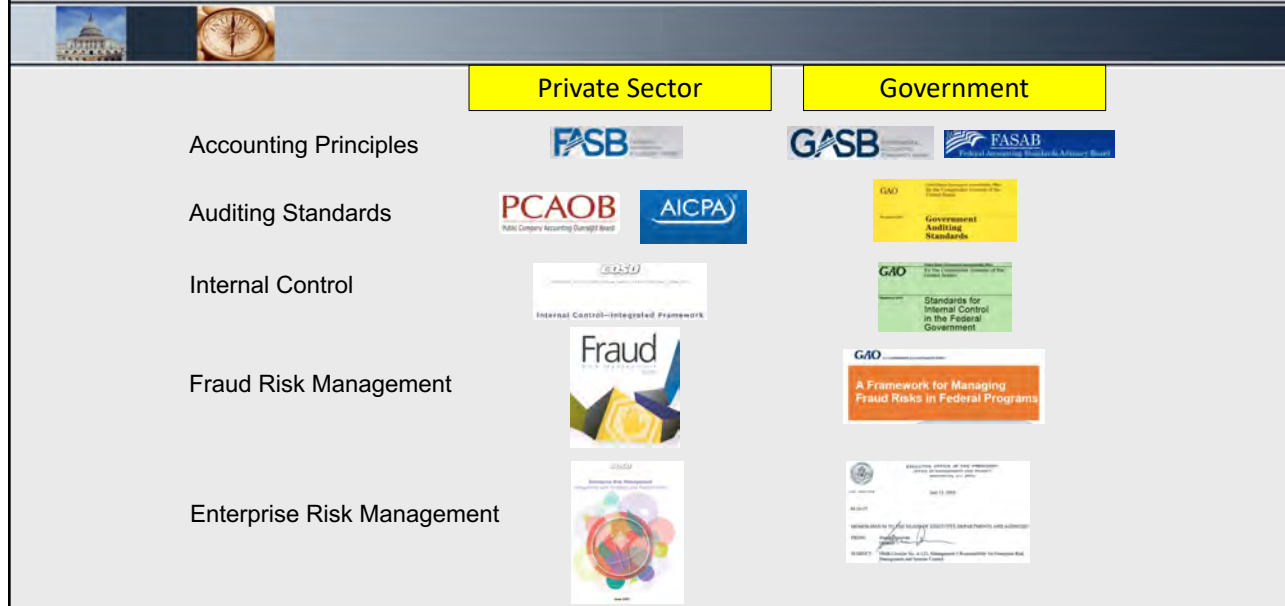
19

### A short history: COSO, internal control, enterprise risk management, and fraud risk management

- 2004: COSO Enterprise Risk Management Framework
- 2013: COSO Internal Control—Integrated Framework
  - Principle 8: Consider fraud when assessing risks
- 2014: ACFE/COSO Fraud Risk Management task force
- 2015: GAO Fraud Risk Management Framework
- 2016: ACFE/COSO Fraud Risk Management Guide
- 2017: COSO Enterprise Risk Management Framework—Integrating with Strategy and Performance

20

# The big picture: principles, standards, and leading practices

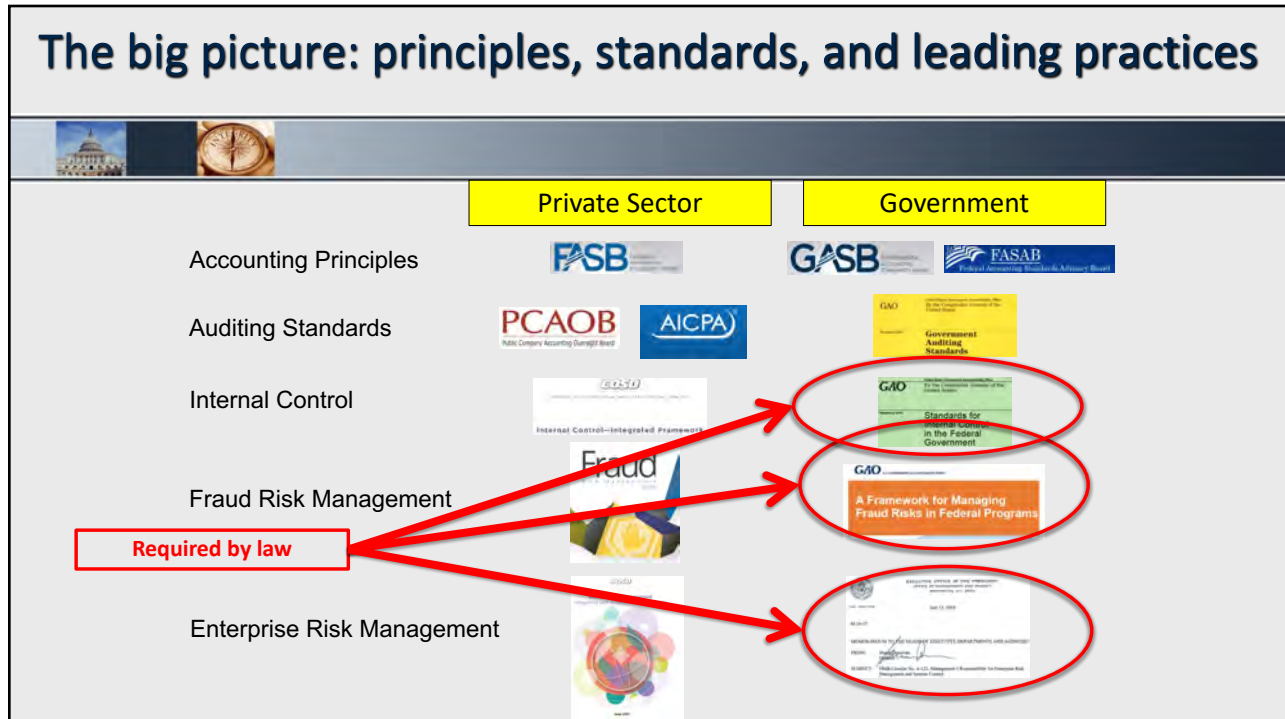


21

# The big picture: principles, standards, and leading practices



22

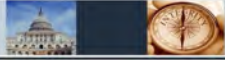


23



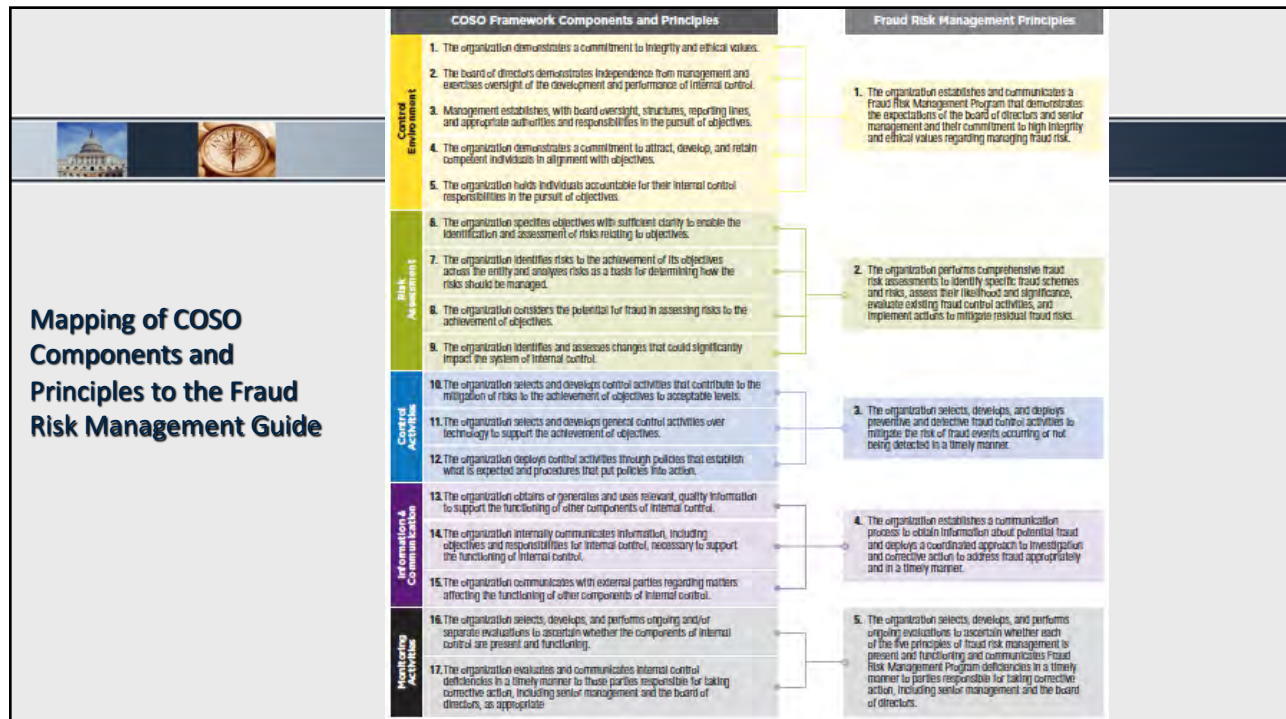
24

## 2016 FRMG overview



- Five fraud risk management principles
- Maps to COSO IC Framework
- Detailed information on performing a fraud risk assessment
- 19 Appendices

25



26

## Basic fraud risk management process

Figure 1. Ongoing, Comprehensive Fraud Risk Management Process

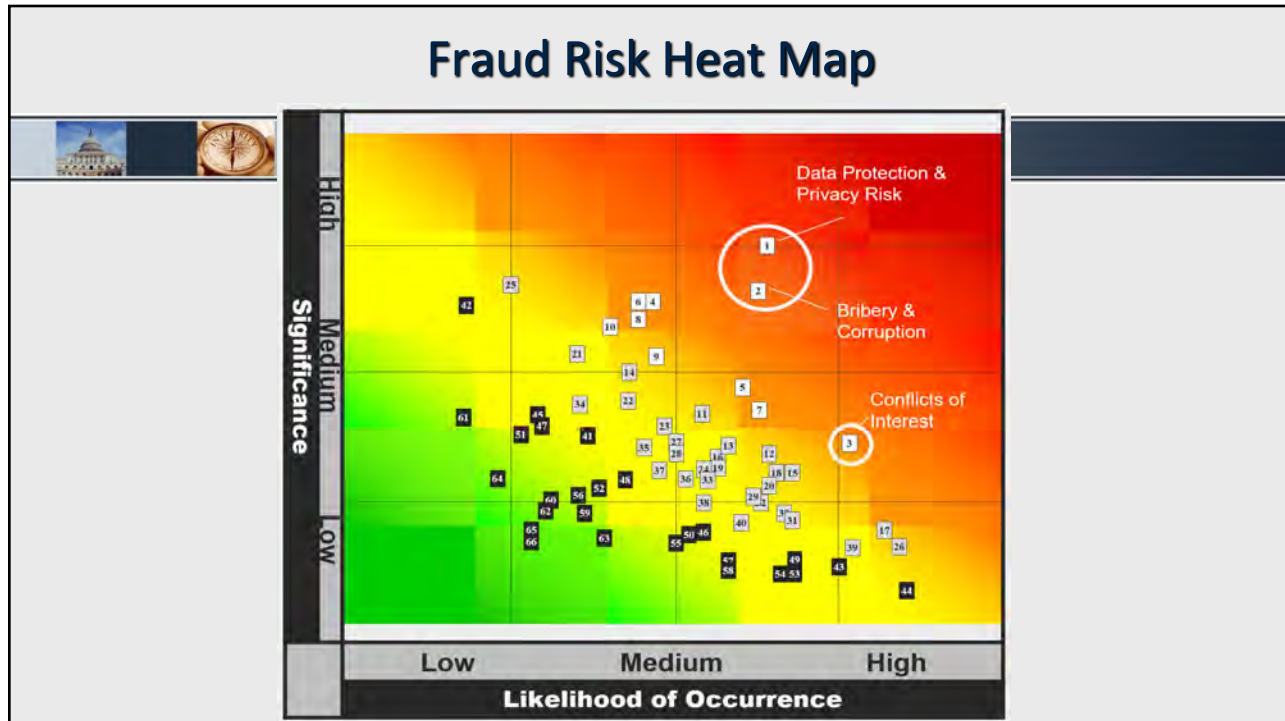


27

## The risk assessment process



28



29

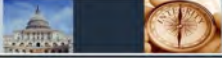


30



## 2025 Annual Conference

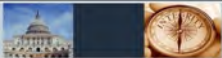
### Appendices



- A: GLOSSARY
- B: ROLES AND RESPONSIBILITIES
- C: CONSIDERATIONS FOR SMALLER ENTITIES
- D: REFERENCE MATERIAL
- E: DATA ANALYTICS
- F: SAMPLE GOVERNANCE MATERIALS
  - F1: FRAUD CONTROL POLICY FRAMEWORK
  - F2: FRAUD RISK HIGH-LEVEL ASSESSMENT
  - F3: FRAUD POLICY RESPONSIBILITY MATRIX
  - F4: FRAUD RISK MANAGEMENT POLICY
  - F5: FRAUD RISK MANAGEMENT SURVEY
- G: LIST OF FRAUD RISK EXPOSURES
- H: SAMPLE FRAUD RISK ASSESSMENT
- I: FRAUD RISK MANAGEMENT ASSESSMENT SCORECARDS
- J: HYPERLINKS TO ADDITIONAL TOOLS
- K: MANAGING THE RISK OF FRAUD IN GOVERNMENT

31

### FRMG 2023 Update



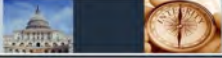
- In 2021, COSO reached out to ACFE regarding whether the FRMG should be updated or “refreshed”
- So, we put (part of) the band back together

32

32

## 2025 Annual Conference

### The 2023 Update Task Force



#### **Fraud Risk Management Guide Update Task Force**

**Tom Caulfield**  
Procurement Integrity Consulting Services

**Sandra K. Johnigan, Co-Chair**  
Johnigan, PC

**Jeffrey Steinhoff**  
Formerly KPMG and GAO

**David Coderre**  
CAATS

**Andi McNeal**  
ACFE

**Pamela Verick**  
Protiviti

**David L. Cotton, Co-Chair**  
Cotton, A Sikich Company

**Linda Miller**  
Audient Group, LLC

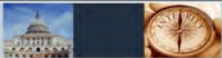
**Vincent Walden**  
KonaAI

**John D. Gill**  
ACFE

**Lynda Schwartz**  
University of Massachusetts Amherst

33

### What has not changed

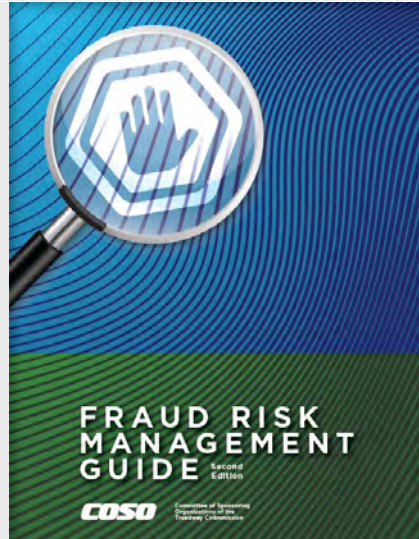
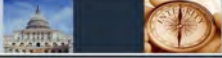


- Mapping to COSO IC Framework
- Five fraud risk management principles and the basic process
- The fraud risk assessment process

34

## 2025 Annual Conference

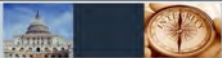
### Let's Look at the FRMG, 2<sup>nd</sup> Edition



35

35

### Major changes

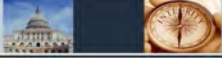


- Fraud risk management and deterrence *linkage*
- COSO's two frameworks and fraud risk management *linkage*
- *Expanded* information on data analytics
- Internal control and fraud risk management: *how they differ*
- *Assessing the effectiveness* of existing control procedures
- Changes in the legal and regulatory environment
- Fraud reporting systems (hotlines)
- Changes in the external environment and fraud landscape
- Appendices changes
- Fraud risk management tools

36

## 2025 Annual Conference

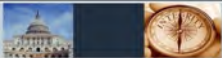
### Fraud risk management and deterrence



- COSO's mission is to *help organizations improve performance by developing thought leadership that enhances internal control, risk management, governance and **fraud deterrence**.*
- According to the National Institute of Justice:
  - The *certainty* of being caught is a vastly more powerful deterrent than the punishment.
  - Police deter crime by increasing the perception that criminals will be caught and punished.

37

### Fraud risk management and deterrence



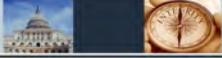
Fraud deterrence is the combined result of prevention and detection:



38

## 2025 Annual Conference

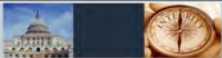
### Fraud risk management and deterrence



- Deterrence is also supported and enhanced by the knowledge throughout the organization that:
  - Those charged with governance have made a commitment to comprehensive fraud risk management.
  - Periodic fraud risk assessments are being conducted.
  - Overt *and* covert fraud control activities are in place.
  - Suspected frauds are investigated quickly.
  - Fraud reporting mechanisms are in place.
  - Discovered frauds are remediated thoroughly.
  - The entire Fraud Risk Management Program is being monitored on an ongoing basis.

39

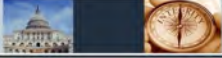
### COSO's two frameworks and fraud risk management



- COSO Internal Control—Integrated Framework: 1992, 2013
- COSO Enterprise Risk Management Framework: 2004
- Enterprise Risk Management — Integrating with Strategy and Performance: 2017
- Fraud Risk management Guide: 2016, 2022

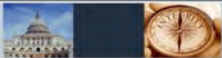
40

## COSO's two frameworks and fraud risk management



41

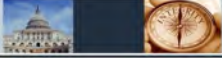
## Expanded information on data analytics



- Added a data analytics Point of Focus under each of the five fraud risk management Principles:
  1. **Uses Data Analytics to Support Fraud Risk Governance**
  2. **Uses Data Analytics Techniques for Fraud Risk Assessment and Fraud Risk Responses**
  3. **Uses Proactive Data Analytics Procedures**
  4. **Performs Data Analytics**
  5. **Uses Data Analytics to Continuously Monitor and Improve**

42

## Expanded information on data analytics

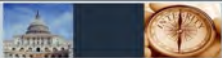


### Expanded Data Analytics Appendices

- **Appendix D-1** explains how to build a sustainable data analytics capability, develop a data analytics plan, attract, and develop a team of skilled professionals, acquire the right technological solutions, and implement processes and procedures.
- **Appendix D-2** provides both guidance and practical examples of the application of data analytics techniques and approaches as part of a fraud risk assessment.
- **Appendix D-3** explains how data analytics techniques can enhance fraud control activities to mitigate residual risks that were identified during the fraud risk assessment.

43

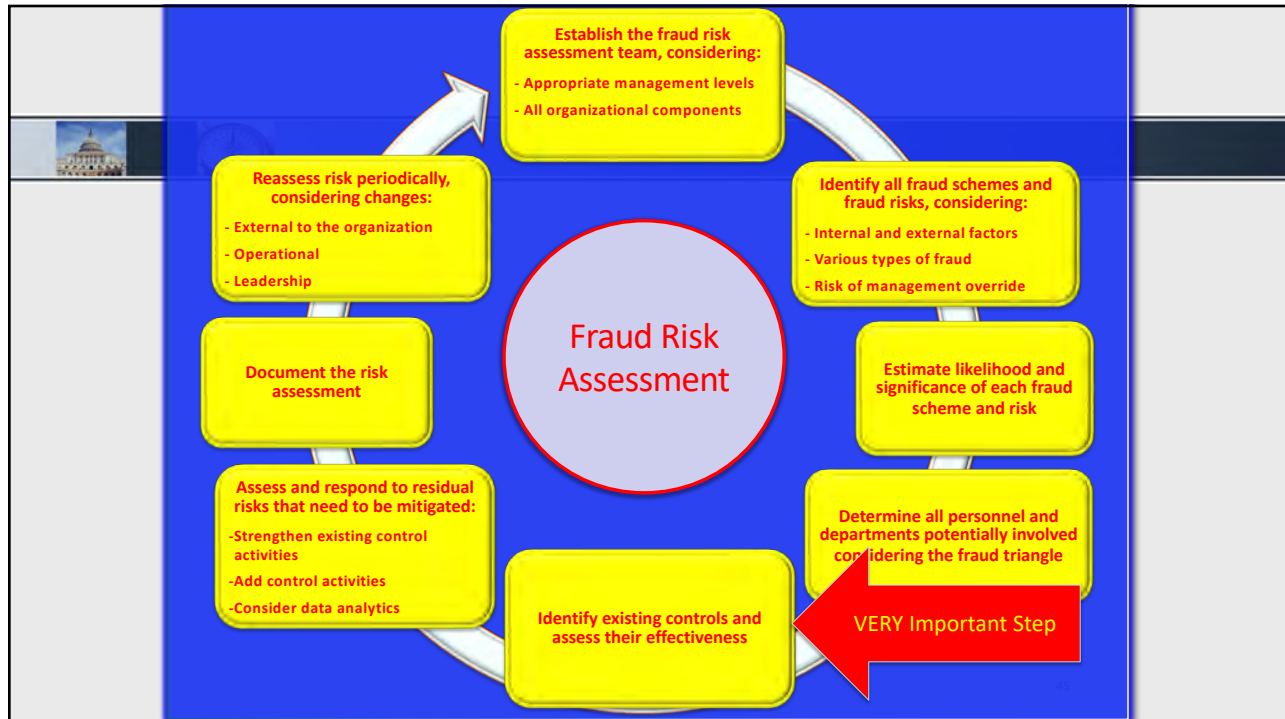
## Internal control and fraud risk management



- Internal control and fraud risk management are related and support each other, but are different in some important respects.
- Controls that may assure accuracy in accounting and financial reporting may not be sufficient to protect against fraud.

44

## 2025 Annual Conference



45

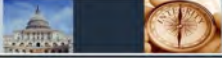
## Internal control and fraud risk management

- Internal control and fraud risk management are related and support each other, but are different in some important respects.
- Controls that may assure accuracy in accounting and financial reporting may not be sufficient to protect against fraud.
- ***Let's look at some examples ...***

46



## Internal control and fraud risk management

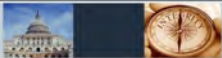


- Segregation of Duties.
- Approved Vendor Lists.
- Higher Transaction Approval Authorities.
- Asset Verification Physical Counts.

47

## Segregation of Duties

Overt Control Activity



- ***Do not let one person control all transaction phases***
- Good for accuracy in accounting and financial reporting
- BUT, in assessing fraud risk, we need to consider how that control can be circumvented or rendered ineffective
  - Collusion among the people across whom duties are segregated
  - Password-sharing
  - I.e., residual fraud risk
- Let's apply additional controls to mitigate the residual risk
  - Frequently rotate the duties
  - Monitor password use and attendance

Covert Control Activity

48

48

## 2025 Annual Conference

### Approved Vendor List



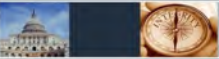
- ***We only do business with reputable companies that have been thoroughly vetted***
- Good for accuracy in accounting and financial reporting
- BUT, in assessing fraud risk, we need to consider how that control can be circumvented or rendered ineffective
  - Employee gains access to vendor database and adds bogus company
  - Corrupt vendor offers bribes or kickbacks
  - I.e., residual fraud risk
- Let's apply additional controls to mitigate the residual risk
  - Match fields in employee and vendor databases
  - Apply data analytics to track unusual buying and pricing patterns



49

49

### Approved Vendor List

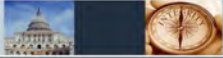


- ***Wait: what if your organization includes employees in the vendor database in order to process travel expense reimbursement transactions?***

50

50

## Higher Level Approvals Required for Large Transactions



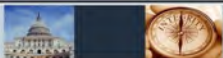
- **Any purchase of more than \$50,000 requires regional manager approval**
- Good for accuracy in accounting and financial reporting
- BUT, in assessing fraud risk, we need to consider how that control can be circumvented or rendered ineffective
  - Purchase-splitting
  - Regional manager becomes corrupt
  - I.e., residual fraud risk
- Let's apply additional controls to mitigate the residual risk
  - Apply Benford's Law to the purchasing database
  - Apply data analytics to track unusual buying and pricing patterns

Overt Control Activity

Covert Control Activities

51

## Physical Counts of Assets/Inventory



- **We periodically take physical counts of assets and inventory**
- Good for accuracy in accounting and financial reporting
- BUT, in assessing fraud risk, we need to consider how that control can be circumvented or rendered ineffective
  - Actual inventory is moved from location to location
  - Empty boxes are disguised to appear to have contents
  - I.e., residual fraud risk
- Let's apply additional controls to mitigate the residual risk
  - Vary the inventory counting process to conduct surprise counts or simultaneous location counts
  - Vary the counting process (weigh boxes; open boxes; etc.)

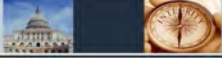
Overt Control Activity

Covert Control Activities

52

52

## Library of Internal Controls



- If your organization is following the COSO framework, you probably have a list (“library”) of all controls
- Apply this “how could fraud happen despite this control” analysis to every control

53

53

## Assessing the effectiveness of existing control procedures



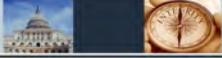
Clarification that assessing the effectiveness of existing controls is a two-step process.

- First, a determination will be made as to whether the control is *in place and functioning as designed*.
- Once that determination is made, the control will be *re-assessed in terms of its effectiveness for preventing and detecting fraud*.

54

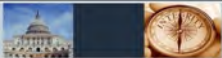
## 2025 Annual Conference

### Changes in the legal and regulatory environment



- Includes updated information with respect to recent legal and regulatory developments pertaining to fraud and fraud risk management, including:
  - The Department of Justice’s *Evaluation of Corporate Compliance Programs*.
  - The Government Accountability Office’s *A Framework for Managing Fraud Risks in Federal Programs*.
  - U.S. Securities and Exchange Commission Climate and ESG Task Force

55



## THE WALL STREET JOURNAL.

By [Dave Michaels](#) [Follow](#)

June 10, 2022 5:18 pm ET

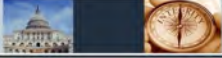
### SEC Is Investigating Goldman Sachs Over ESG Funds

Regulator’s civil probe focuses on bank’s mutual-funds business, according to people familiar with the matter

56

56

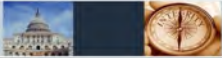
## Fraud reporting systems (hotlines)



- ACFE research consistently reveals the importance of having fraud hotlines or whistleblower reporting systems in place.

57

## Fraud reporting systems (hotlines)



Source: ACFE 2024 Report to the Nations

58

## Fraud reporting systems (hotlines)

FIG. 13. HOW IS OCCUPATIONAL FRAUD INITIALLY DETECTED?

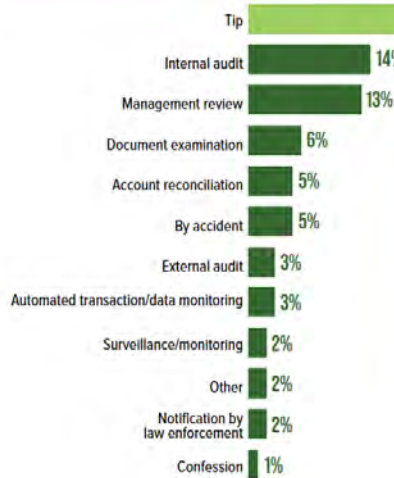
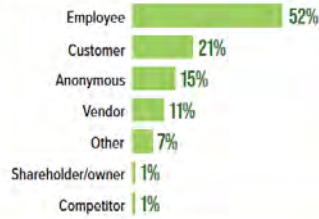


FIG. 14. WHO REPORTS OCCUPATIONAL FRAUD?



Source: ACFE 2024 Report to the Nations

59

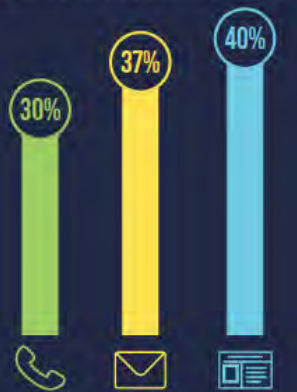
## Fraud reporting systems (hotlines)

The most COMMON MECHANISMS used to report fraud tips:



Email and web-based reports BOTH surpassed telephone hotlines

- Telephone ●
- Email ●
- Web-based ●

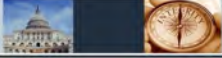


Source: ACFE 2024 Report to the Nations

60

## 2025 Annual Conference

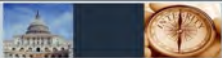
### Fraud reporting systems (hotlines)



- ACFE research consistently reveals the importance of having fraud hotlines or whistleblower reporting systems in place.
- Expanded information on the importance of hotlines as part of Principle 1 (Control Environment) and Principle 4 (Information and Communication)

61

### Changes in the external environment and fraud landscape



The fraud landscape is changing rapidly. The 2023 FRMG edition includes information on this changing environment, including:

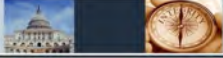
- Environmental, social and governance (ESG) initiatives and reporting
- Cyberfraud
- Blockchain, cryptocurrency, and digital assets
- Ransomware
- COVID-19 response efforts, the CARES Act, and related programs
- Remote working and hybrid working environments
- Innovative and virtual management tools and accounting procedures

62



## 2025 Annual Conference

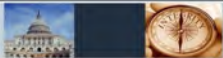
### Appendices changes



- 2016 edition had 19 appendices
- 2023 edition has 7 appendices

63

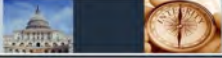
### Appendices changes



2016 Appendices	2022 Edition Changes
A. Glossary	Updated and retained.
B. FRM Roles/Responsibilities	Updated and retained.
C. FRM Considerations for Smaller Entities	Updated and retained.
D. Reference Materials	Eliminated.
E. Data Analytics and FRM	Revised and expanded. New Appendices D-1, D-2, D-3.
F-1. Sample Fraud Control Policy	Updated but moved to the ACFE Tools site.
F-2. Fraud Risk Management High-Level Assessment	Updated but moved to the ACFE Tools site.
F-3. Sample Fraud Policy Responsibility Matrix	Updated but moved to the ACFE Tools site.
F-4. Sample Fraud Risk Management Policy	Updated but moved to the ACFE Tools site.
F-5. Sample Fraud Risk Management Survey	Updated but moved to the ACFE Tools site.
G. Fraud Risk Exposures	Eliminated but replaced with an expanded list on the ACFE Tools site.
H. Fraud Risk Assessment Example	Updated and retained. New Appendix E.
I-1 thru I-5 Scorecards	Updated but moved to the ACFE Tools site.
J. Hyperlinks to Additional Tools	Updated and retained. New Appendix F.
K. Managing the Risk of Fraud, Waste, and Abuse in the Governmental Environment	Updated and retained. New Appendix G.

64

## Fraud risk management tools at ACFE

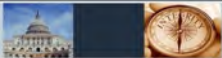


<https://www.acfe.com/fraud-resources/fraud-risk-tools---coso/tools>

65

65

## Fraud risk management tools at ACFE

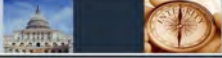


<https://www.acfe.com/fraud-resources/fraud-risk-tools---coso/tools>

- Antifraud Playbook
- Library of Antifraud Data Analytic Tests
- Fraud Risk Management Interactive Scorecards
- Risk Assessment and Follow-Up Action Templates
- Points of Focus Documentation Templates

66

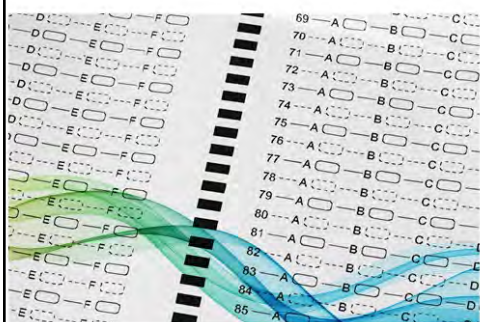
## Fraud risk management tools at ACFE



- Sample Fraud Control Policy
- Fraud Risk Management High-Level Assessment
- Sample Fraud Policy Responsibility Matrix
- Sample Fraud Risk Management Policy
- Sample Fraud Risk Management Survey
- Expanded list of fraud exposures, hyperlinked to underlying descriptions
  - Generic schemes
  - Industry-specific schemes

67

## Fraud risk management tools at ACFE



### Interactive Fraud Risk Management Scorecards

Use interactive scorecards to assess the components of your organization's existing fraud risk management program. The scorecards are based on the five fraud risk management principles found in the Fraud Risk Management Guide, and they support your organization's periodic self-assessment.

[Evaluate Your Fraud Program →](#)

68

68

# 2025 Annual Conference

## Fraud Risk Governance Scorecard

To assess the strength of the organization's fraud governance, carefully assess each area below and score the area, factor, or consideration as:

- Red:** Indicating that the area, factor, or consideration needs substantial strengthening and improvement to bring fraud risk down to an acceptable level.
- Yellow:** Indicating that the area, factor, or consideration needs some strengthening and improvement to bring fraud risk down to an acceptable level.
- Green:** Indicating that the area, factor, or consideration is strong and fraud risk has been reduced — at least — to a minimally acceptable level.

Each area, factor, or consideration scored either red or yellow should have a note associated with it that describes the action plan for bringing it to green on the next scorecard.

Fraud Risk Governance Area, Factor, or Consideration	Score	Notes
<b>MAKING AN ORGANIZATIONAL COMMITMENT TO A FRAUD RISK MANAGEMENT PROGRAM</b>		
Our organization has a strong correlation between our organizational culture and fraud risk management.		
Our organization's leadership demonstrates "tone at the top" by promoting ethical behavior and emphasizing a focus on deterring, preventing and detecting fraud.		
Our organization's leadership leads by example to ensure that all personnel, vendors, and contractors understand that the organization is serious about promoting ethical behavior and is committed to deterring, preventing and detecting fraud.		
The way that our management reacts to instances of fraud sends a powerful message inside and outside the organization and acts as a strong deterrent to fraudulent behavior.		
Our organization has a policy regarding our standards of business conduct that reflects the commitment of our organization and our board of directors, officers, executives, and other personnel to conduct business according to the highest standards of integrity and ethics.		

69

## Fraud Risk Management Monitoring Scorecard

[Download Report](#)

### Summary by Points of Focus

Point of Focus	Score
CONSIDERING A MIX OF ONGOING AND SEPARATE EVALUATIONS	
CONSIDERING FACTORS FOR SETTING THE SCOPE AND FREQUENCY OF EVALUATIONS	
ESTABLISHING APPROPRIATE MEASUREMENT CRITERIA	
CONSIDERING KNOWN FRAUD SCHEMES AND NEW FRAUD CASES	
EVALUATING, COMMUNICATING AND REMEDIATING DEFICIENCIES	

### Breakdown by Score

**Fraud Risk Governance Areas, Factors, or Considerations Scored Red**

**CONSIDERING A MIX OF ONGOING AND SEPARATE EVALUATIONS**

Our monitoring activities focus on these aspects of the analysis performed: "Why," "who," "what," "where," and "what's next?"

Our separate evaluations of controls occur periodically and are not part of our organization's routine operations.

Our separate evaluations are performed by internal audit, others within the organization, or third parties (outsourcers).

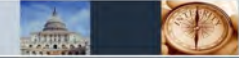
We document our plan, approach, and scope for monitoring our organization's fraud risk management program.

**CONSIDERING FACTORS FOR SETTING THE SCOPE AND FREQUENCY OF EVALUATIONS**

We consider factors that affect the scope of evaluations such as significant changes in the fraud risks of our organization, operating environment changes, changes in personnel responsible for implementing activities that could exacerbate or create new fraud risks, and results of previous fraud risk assessments, including evaluations of measurement criteria.

70

## Fraud risk management tools at ACFE



### Risk Assessment and Follow-Up Action Templates

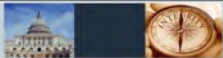
Using the fraud risk assessment matrix in the *Fraud Risk Management Guide* as your foundation, this spreadsheet provides a risk assessment matrix for you to document the organization's fraud risks and controls. The template automatically creates a heat map showing the significance and likelihood of each identified fraud exposure, a fraud risk ranking page displaying each fraud risk exposure from most to least severe, and a control-activities matrix showing the identification and evaluation of existing control activities related to each fraud risk exposure. It also provides space to identify additional control activities and to record your organization's response plan for each exposure. In addition, the template contains pages to record allegations of suspected fraud, document investigations and outcomes, and document fraud risk management monitoring plans.

[Download Templates \(Excel\) →](#)

71

71

## Risk Assessment and Follow-up Actions Template



Fraud Risk Assessment as of [DATE]

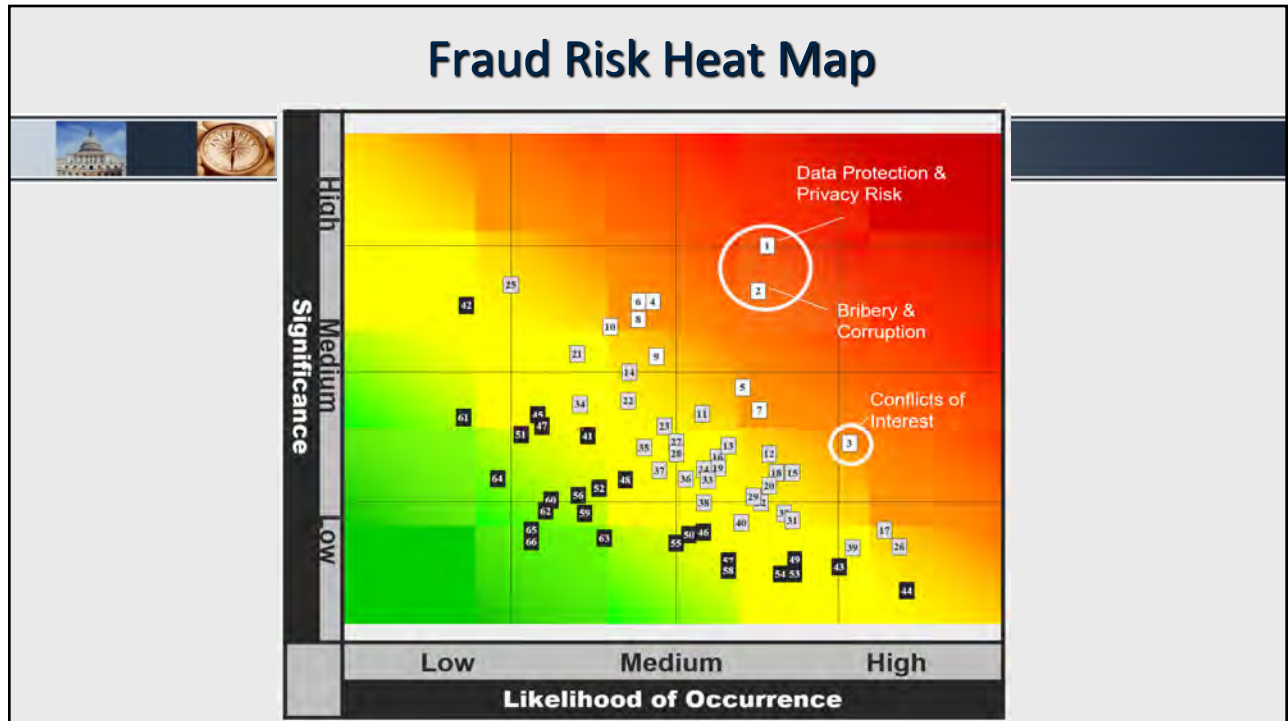
ID Number	Identified Fraud Risks and Schemes	Likelihood [1-10]	Significance [1-10]	People and/or Department	Existing Anti-Fraud Controls	Preventive [C] or Detective [D]	Controls Effectiveness Assessment [1-10]	Residual Risks	Fraud Risk Response

This column is populated based on results of the fraud brainstorming process

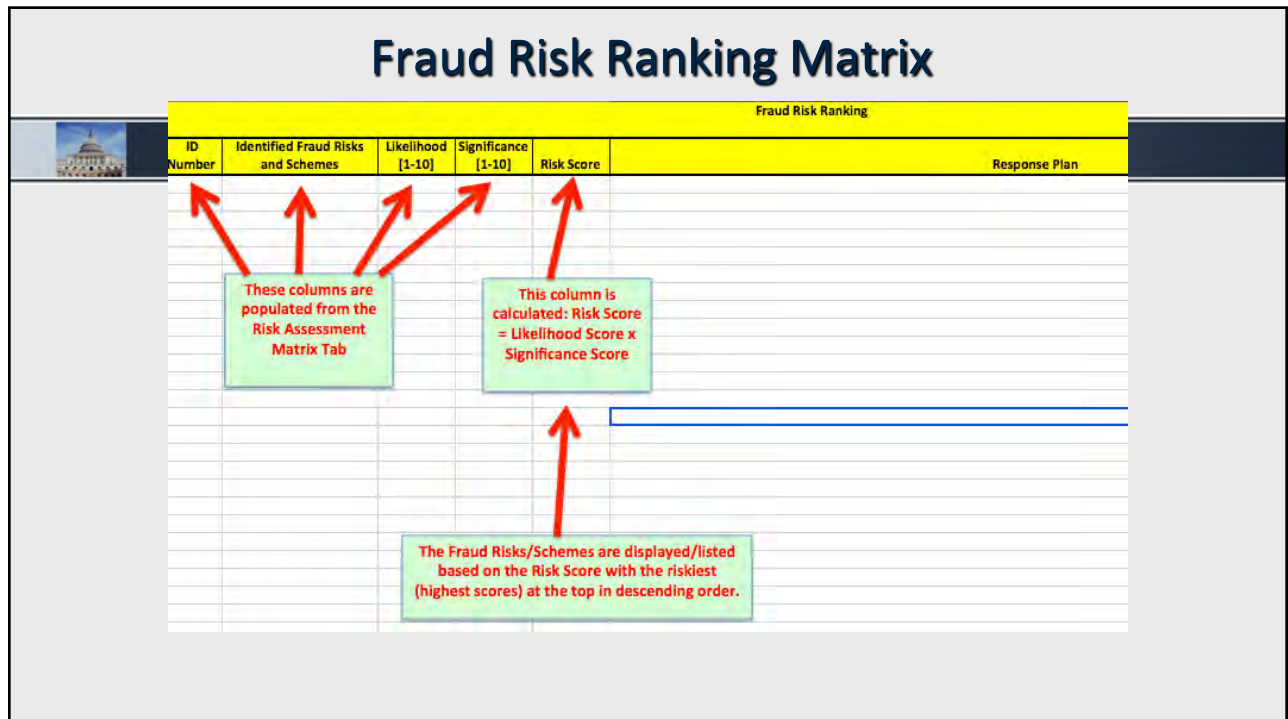
These columns automatically generate the "heat map" that graphs likelihood versus significance

These columns automatically generate the Control Activities Tab columns

72

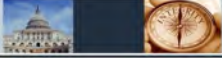


73



74

## Fraud risk management tools at ACFE



### Points of Focus Documentation Templates

Use templates to help create consistent and uniform documentation related to fraud risk governance, fraud risk assessment, fraud control activities, fraud investigation and follow up, and fraud risk management monitoring.

[Download Templates \(Excel\) →](#)



75

75

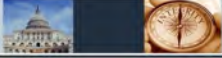
## Points of Focus Documentation

Fraud Risk Control Activities Points of Focus and Our Organization's Response

Points of Focus	Our Organization's Response Including Cross-References to Other Material and Documentation
<b>Promotes Fraud Deterrence through Preventive and Detective Control Activities</b> — The organization addresses its fraud deterrence as a process of eliminating factors that may cause fraud to occur and understands that deterrence results from having effective preventive and detective fraud control activities in place.	
<b>Integrates with the Fraud Risk Assessment</b> — The organization ensures that the design and implementation of fraud control activities link directly to the fraud risk assessment.	
<b>Considers Organization-Specific Factors and Relevant Business Processes</b> — The organization ensures that the design and implementation of fraud control activities consider a range of factors, including factors unique to the organization, its industry, and its operating environment.	
<b>Considers the Application of Control Activities to Different Levels of the Organization</b> — The organization ensures that fraud control activities exist throughout the organization at all appropriate organizational levels.	
<b>Utilizes a Combination of Fraud Control Activities</b> — The organization ensures that fraud control activities include a range, variety, and mix of preventive and detective controls.	
<b>Considers Management Override of Controls</b> — The organization includes fraud control activities that consider and address the ability of senior management personnel to circumvent or override internal control activities, including fraud control activities.	
<b>Uses Proactive Data Analytics Procedures</b> — The organization implements a well-designed, rigorous system of data analytic processes and procedures that can identify anomalous transactions or events for further investigation.	
<b>Deploys Control Activities through Policies and Procedures</b> — The organization ensures that fraud control activities are thoroughly documented and implemented through organizational policies.	

76

## Fraud risk management tools at ACFE



### Library of Anti-Fraud Data Analytics Tests

Explore an interactive tool that details, by fraud risk type, how to integrate data analytics tests into your fraud risk assessment or investigative work plans. The library of anti-fraud data analytics test examples displays a variety of tests to consider and is organized by categories of occupational fraud risks.

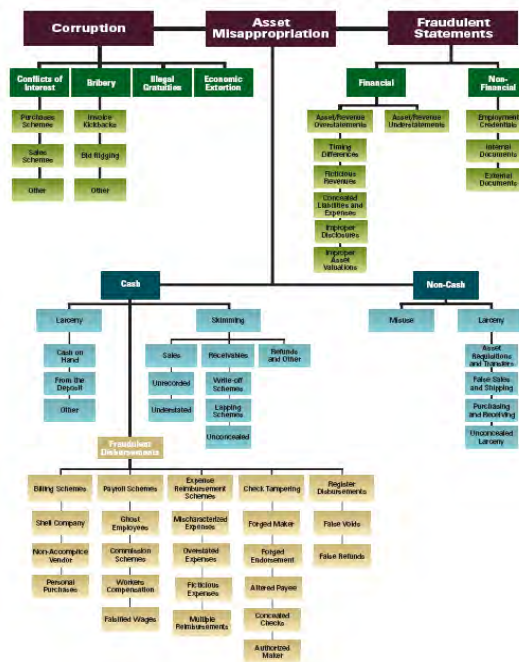
[View Data Analytics Tests →](#)

77

77

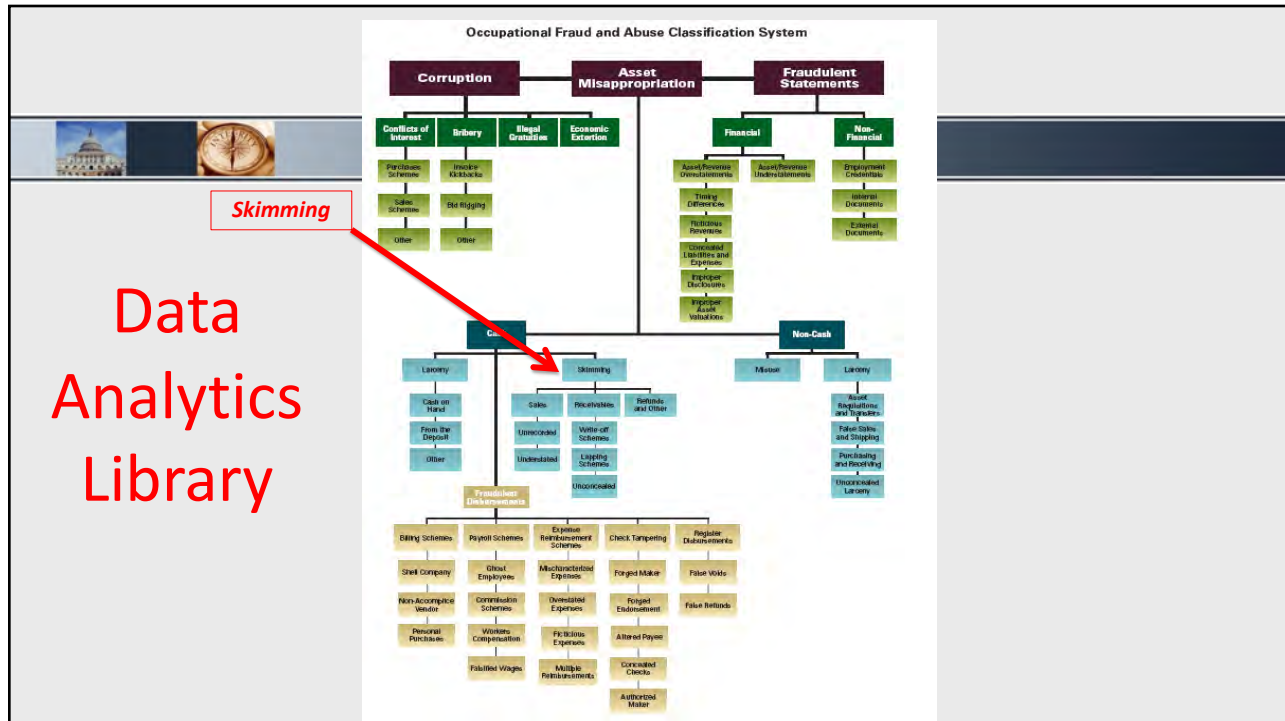
## Data Analytics Library

Occupational Fraud and Abuse Classification System



78







79

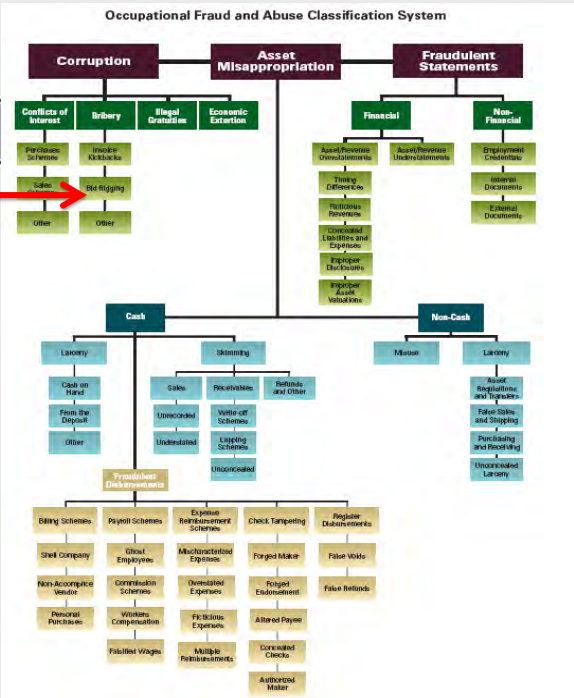
Library of Data Analytics Tests	
<b>CASH - SKIMMING</b>	
Cash Receipts Analysis	Review sequential numbering of cash receipts journal to ensure no out-of-sequence numbers
Vertical Analysis	Vertical analysis of sales accounts. (i.e., cash as a percentage of total assets over time, etc. can be used to detect skimming at a high level)
Horizontal Analysis	Horizontal analysis of sales accounts. (i.e., cash percent change over time, can be used to detect skimming at a high level)
Current Ratio Analysis	Track current assets to current liabilities over time
Quick Ratio Analysis	(Cash+Securities+Receivables) over Current Liabilities percent change over time
Inventory Analysis	Track inventory shrinkage due to unrecorded sales. Inventory detection may include statistical sampling, trend analysis, reviews of receiving reports and inventory records and verification for material requisition and shipping documentation as well as actual physical inventory counts
Red Flags	Bank employee questions the validity of a check
Red Flags	Inspect for a forged endorsement on a check
Red Flags	Inspect for an employee bank account with a name similar to the company name
Red Flags	Inspect for alteration of the check payee or endorsement
Journal Entry Review	Analysis of journal entries made to the cash and inventory accounts to identify: (1) False credits to inventory to conceal unrecorded or understated sales, (2) Write-offs related to lost, stolen or obsolete product, (3) Write-offs to accounts receivable, (4) Irregular entries to cash accounts
Journal Entry Review	Analysis of journal entries to review suspicious or inaccurate journal entries.
Journal Entry Review	Identify larger entries split into smaller entries to avoid exceeding their approval limit. To ensure authorization and validity of the Journal Entry based on the approval limits

80



**Bid Rigging**

**Data Analytics Library**



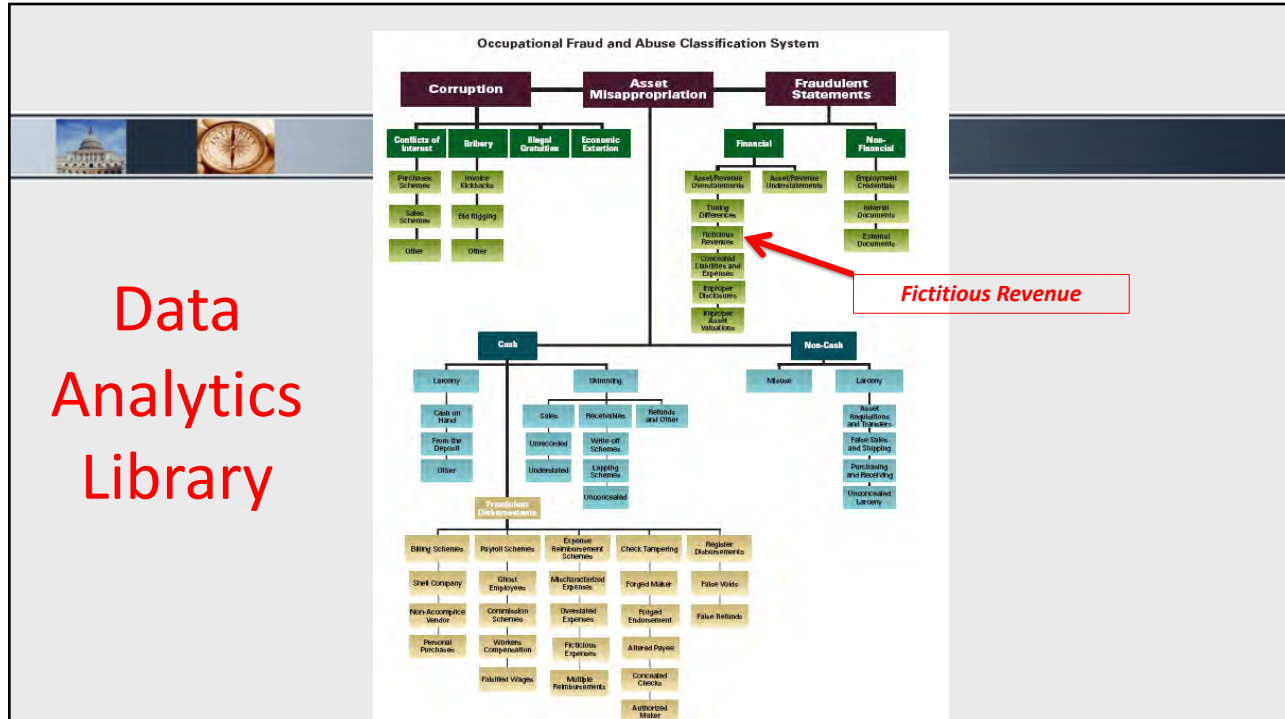
81

**Library of Data Analytics Tests**

BID RIGGING	
Corruption: Bid Rigging	Compare inventory levels and turnover rates on a by project or by product basis, by region
Corruption: Bid Rigging	Inventory written-off and then new purchase made (total write-offs and quantities purchased by product)
Corruption: Bid Rigging	Compare contract awards by vendor (number of contracts won compared to bids submitted)
Corruption: Bid Rigging	Sole sourced contracts - number of bids per contract
Corruption: Bid Rigging	Check for vague contract specifications: (i) amendments, extension, increases in contract values, (ii) total number of amendments, (iii) original delivery date and final delivery date, (iv) original contract value and final contract value
Corruption: Bid Rigging	Check for split contract (same vendor, same day)
Corruption: Bid Rigging	Bids submitted after bid closing date
Corruption: Bid Rigging	Last bid wins
Corruption: Bid Rigging	Low bidder drops out, and subcontracts to higher bidder (compare contractor with invoice payee)
Corruption: Bid Rigging	Fictitious bids - verify bidders and prices

82



83

### Library of Data Analytics Tests

REVENUE RECOGNITION	
Bill & Hold	Analysis of inventory that has been "segregated" or shipped to a third party intermediary where the customer has not taken title and assumed the risks, yet the company has booked this isolated inventory as revenue
Bill & Hold	Identify revenue and receivables recorded prior to shipment
Channel Stuffing	Compare discounts or incentives on a monthly basis to identify unusual spikes at the end of the quarter or year.
Channel Stuffing	Compare sales and corresponding returns on a per customer basis
Debt Swap	Identification of Journal Entries with Net Debit to Liability and Credit to Revenue
Debt Swap	Identification of Journal Entries with Net Debit to Liability and Credit to Expenses
Fake Invoices	Analysis of sequentially numbered invoices
Fake Invoices	Benford's analysis of the first two digits to identify anomalies such as a disproportionate number of invoices starting with 7, 8 or 9
Fake Invoices	Analysis of company names that "sound like" known vendors
Fake Invoices	Examine inventory records to identify locations or items that require specific attention during or after the physical inventory count
Revenue Recognition	Analysis and anomaly detection of the sequence of transactions to identify missing checks, invoices
Revenue Recognition	Compare A/R credit memos to A/P invoices
Revenue Recognition	Compare revenue reported by month and by product line during the current period with comparable prior periods
Revenue Recognition	Confirm with selected, high risk customers relevant contract terms or question company staff regarding shipments near the end of the period
Revenue Recognition	Identification of revenue recognized at period end and subsequently reversed or partially reversed
Fraud Triangle Analytics	E-mail analysis of selected employees (accounting or sales) for "Rev Rec" related key words around incentive/pressure, opportunity and rationalization

84

## Fraud risk management tools at ACFE



### Anti-Fraud Policies and Procedures

Use these sample materials to facilitate the implementation of a comprehensive fraud risk management program at your organization. The sample documents include the following:

- Sample Fraud Control Policy Framework—a listing of key elements to be considered in drafting a fraud control policy
- Fraud Risk Management High-Level Assessment—a checklist to use to make an initial high-level assessment of an organization's fraud risk governance policies
- Sample Fraud Policy Responsibility Matrix—a sample tool that can be used to summarize and visualize the fraud risk governance roles and responsibilities that have been defined for an organization as part of its fraud risk management program
- Sample Fraud Risk Management Policy—a sample policy document that can be adapted to meet the needs of a particular organization
- Sample Fraud Risk Management Survey—a sample survey that can be modified as needed for a particular organization and administered periodically to assess organizational awareness regarding fraud risk management

[Download Anti-Fraud Policies and Procedures \(Zip File\) →](#)

85

## Fraud risk management tools at ACFE



### Fraud Risk Exposures

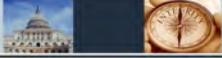
This list contains fraud exposures that all organizations need to guard against and schemes within different industries, as well as a description of each underlying fraud and how it can be carried out. Use this list as either as a starting point for a fraud risk assessment or as a final check once a fraud scheme list has been compiled by the risk assessment team.

[View List of Fraud Risk Exposures \(PDF\) →](#)

86

86

## Fraud risk management tools at ACFE

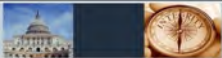


- More than 200 specific fraud schemes
- Hyperlinked to underlying descriptions

Fraud Risk Exposure
<b>Intentional Manipulation of Financial Statements:</b>
<a href="#">Inappropriately Reported Revenues</a>
<a href="#">Fictitious Revenues</a>
<a href="#">Fraudulent Audit Confirmations</a>
<a href="#">Re-Dating or Refreshing Receivables to Conceal Uncollectables</a>
<a href="#">Manipulation of Promotional Allowances</a>
<a href="#">Improper Adjustments to Estimates</a>
<a href="#">Premature Revenue Recognition</a>
<a href="#">Side Agreements</a>
<a href="#">Bill and Hold</a>
<a href="#">Channel Stuffing</a>
<a href="#">Round-Trip Transactions</a>
<a href="#">Altered or False Shipping Documents</a>
<a href="#">Sell-Through Agreements</a>
<a href="#">Up-Front Fees</a>
<a href="#">Holding Accounting Periods Open</a>
<a href="#">Failure to Record Sales Provisions or Allowances</a>
<a href="#">Manipulating Percentage of Completion</a>
<a href="#">Manipulating Estimated Costs to Complete</a>
<a href="#">Inappropriately Reported Expenses</a>
<a href="#">Improper Period Recognition of Expenses</a>
<a href="#">Improper Use of Special Purpose Variable Interest Entities</a>

87

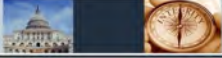
## Be part of the antifraud effort



- The tools at ACFE are intended to be crowd-sourced.
  - If you have:
    - Suggestions for modifications to existing tools
    - Ideas for additional tools
    - Additional fraud exposures to add to the list
    - Other comments or recommendations....
- Contact us.

88

## Yes, Yes, Yes...It's Hard Work



Just remember

- The perps hope you are lazy
- If the perps discover that you are not lazy and have thoroughly implemented fraud risk management processes, they will move on to find easier targets

89

89



# ***Fraud Risk Management***

Dave Cotton, CFE, CPA, CGFM  
dave@cottoncfe.com

90