

Appendix III: Fraud Risk Assessment Hypothetical Example

Hypothetical Fraud Risk Assessment of Two Fictitious Fraud Risks in the Retention Incentive Payments Program (RIPP) in Fiscal Year (FY) 2016

Conducting a fraud risk assessment and documenting the results in a fraud risk profile, as illustrated in the hypothetical example that appears below, could help an agency identify, analyze, and develop efficient and effective responses to fraud risks that may exist within its program or operations.

The Fraud Risk Framework states that when resource constraints, available expertise, or other circumstances prohibit the use of statistical analysis for assessing fraud risks, other quantitative or qualitative risk-scoring techniques can still be informative. For example, as seen in this hypothetical example, risk scoring can be used to quantify the likelihood and impact of fraud risks, and preferably uses an objective method in which the intervals between a score have meaning, such as using numeric rankings of 1 to 5 that indicate “rare” to “almost certain” for likelihood of a particular fraud risk occurring, and “immaterial” to “extreme” for impact to an agency’s program or operation objectives. These rankings can then be used to understand the overall significance of the fraud risk on a similar scale that represents, for instance, “low” to “high.”

Table 1: Hypothetical Fraud Risk Assessment of Two Fictitious Fraud Risks in the Retention Incentive Payments Program (RIPP), during Fiscal Year (FY) 2016

Action Owners	Agency’s Strategic Objective	Program Objective	Inherent Fraud Risks ^c	Existing Control Activities	Fraud Risk Factors / “Red Flags” ^a	Likelihood Level	Impact Level	Level of Significance and Management Response	Least Cost-Effective and Efficient Response ^b	Most Cost-Effective and Efficient Response ^b	Strategic Response, Treatment, and Time Frame ^b	Current Status of Response	Residual Fraud Risks Postresponse ^c
RIPP Action Owners	Strategic Objective 4.4 Being a Responsible Steward of Human, Information, Fiscal, Technological, and Physical Resources	RIPP: Operations— Helps achieve the agency’s strategic objective of being a responsible steward of human resources by attracting and retaining a high-performing workforce	Unreturned (e.g., duplicate) RIPP Payments	RIPP Action Owners monitor and compare activity with third-party agency data on payroll history for RIPP payments, salary offsets, and Automated Billing and Collection activity	During FY15, unreturned improper payments resulted from coding errors that caused duplicate RIPP payments to XX staff, totaling \$X,XXX	4 (Likely)	3 (Moderate)	H - High Risk	Purchase new data analytical software to detect duplicate payments (postpayment control)	Fix coding error to reduce duplicate payments (prepayment control)	In FY16, fix coding to reduce amount of duplicate payments to employees	Response in progress	Will assess and determine response effectiveness in FY 17
RIPP Action Owners	Strategic Objective 4.4 Being a Responsible Steward of Human, Information, Fiscal, Technological, and Physical Resources	RIPP: Operations— Helps achieve the agency’s strategic objective of being a responsible steward of human resources by attracting and retaining a high-performing workforce	Unfulfilled 3-year commitment and RIPP payments not reimbursed	Employees must sign form acknowledging reimbursement requirement when leaving agency prior to 3-year commitment	Between FY14 and FY16, X employees resigned, but did not fulfill 3-year commitment or reimburse RIPP payments totaling \$X,XXX	3 (Possible)	3 (Moderate)	H - High Risk	Work with third-party agency or new employer to garnish employee’s wages from new employer to collect amount to be reimbursed	Offset final agency paychecks to collect amount to be reimbursed	Begin to offset final agency paychecks to collect amount to be reimbursed to agency	Response in progress	Will assess and determine response effectiveness in FY 18

^aAccording to GAO’s Green Book, management considers specific fraud risk factors that may not indicate that fraud actually exists, but are often present when fraud does occur. These fraud risk factors include the following elements: (1) opportunities to commit fraud (i.e., weak controls), (2) pressures to commit fraud (e.g., personal financial need), and (3) rationalization to commit fraud (justification for committing fraud). Fraud could result in the examples above if the recipients are aware that the payments should not be retained, but do nothing to try to return the payments received because of personal financial pressures or the rationalization that the agency may not notice or be concerned. Therefore, the possibility of unreimbursed RIPP payments poses a fraud risk.

^bIn deciding the appropriate response –avoid, accept, share, or reduce–management considers the likelihood and impact of the risk, as well as its defined risk tolerance. Management considers, among other factors, the costs and benefits of various options when designing control activities to reduce the likelihood or impact of a fraud risk to a tolerable level.

^cAn “inherent fraud risk” is the fraud risk to an entity or program prior to considering management’s response to the risk. A “residual fraud risk” is the fraud risk that remains after the inherent fraud risk has been mitigated by existing control activities.

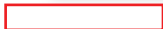
Appendix III: Fraud Risk Assessment Hypothetical Example *(continued)*

Hypothetical Dashboard Summary: Status of Two RIPP Fraud Risks Assessed as of FY16

A dashboard summary, such as the one that is displayed below, can provide an agency's dedicated antifraud entity with an easy to read overview of the results of an agency's fraud risk assessment. These dashboard results can display the current status of an agency's efforts to respond to assessed fraud risks as well as the levels of significance of fraud risk, among other results.

Figure 3: Hypothetical Dashboard Summary of Response and Levels of Significance of Fraud Risks of Two Fictitious Fraud Risks in the RIPP, as of FY16

Current Status of Response		Levels of Fraud Risk	
Open	0	Low Risk	0
Closed	0	Moderate Risk	0
Response in progress	2	High Risk	2
Response implemented	0	Extreme Risk	0
Monitoring	0		



Appendix III: Fraud Risk Assessment Hypothetical Example *(continued)*

Hypothetical Definitions of Key Terms Used in Fraud Risk Assessment and Dashboard Summary

The tables below provide hypothetical definitions of key terms used in the hypothetical fraud risk assessment and dashboard summary presented earlier.

Table 2: Hypothetical Program Objectives

Type	Description
Operations	Effectiveness and efficiency of operations.
Reporting	Reliability of reporting for external and internal use.
Compliance	Compliance objectives can relate to compliance with applicable laws and regulations.

Table 3: Hypothetical Qualitative and Quantitative Measure of Likelihood

Level	Description	Qualitative Measure	Quantitative Measure
5	Almost certain	Is expected to occur in most circumstances	More than once per year
4	Likely	Will probably occur in most circumstances	1 in 1–3 years
3	Possible	Might occur at some time	1 in 4–6 years
2	Unlikely	Could occur at some time	1 in 7–9 years
1	Rare	Might occur in exceptional circumstances	1 in 10 years

Table 4: Hypothetical Qualitative and Quantitative Measure of Impact

Level	Description	Qualitative Example Detail Description	Quantitative Example Detail Description
1	Immaterial	Low risk to agency or program reputation and assets	Low financial loss (Nil–Negligible)
2	Minor	Medium risk to agency or program reputation and assets	Medium financial loss (Under \$500,000)
3	Moderate	High risk to agency or program reputation and assets	High financial loss (\$500,000–\$5 million)
4	Major	Major risk to agency or program reputation and assets	Major financial loss (\$5 million–\$20 million)
5	Extreme	Detrimental effect, huge risk to agency or program reputation and assets	Huge financial loss (Above \$20 million)

Appendix III: Fraud Risk Assessment Hypothetical Example *(continued)*

Hypothetical Definitions of Key Terms Used in Fraud Risk Assessment and Dashboard Summary *(continued)*

Figure 4: Hypothetical Level of Fraud Risk Significance and Potential Management Response Matrix

Likelihood	Potential Impact to Objectives				
	Immaterial (1)	Minor (2)	Moderate (3)	Major (4)	Extreme (5)
5 (almost certain)	M	H	H	E	E
4 (likely)	L	M	H	H	E
3 (possible)	L	M	H	H	H
2 (unlikely)	L	L	M	M	H
1 (rare)	L	L	L	L	M

Levels of Fraud Risk Significance and Potential Management Response

E	Extreme Risk: Management takes immediate action required to avoid the fraud risk.
H	High Risk: Management takes action to reduce or compensate for the fraud risk.
M	Moderate Risk: Management takes action to share the fraud risk.
L	Low Risk: Management accepts fraud risk.

Note: Level of Fraud Risk Significance and Potential Management Response = (Likelihood) x (Potential Impact to Objectives).

Table 5: Hypothetical Status of Fraud Risks

Type	Description
Open	Newly identified fraud risk or in process of identifying appropriate response.
Closed	Program/activity has ended, so fraud risk no longer exists.
Response in progress	Response has been identified, but has not yet been implemented (e.g., going through union negotiation process).
Monitoring	Fraud risk within tolerable level or no further action is required, but will monitor as part of future fraud risk assessments due to potential changes in environment or operating conditions affecting how likely and influential the fraud risk will be.
Response implemented	Response has been implemented. Reassess effectiveness of response during the next fraud risk assessment process to see whether sufficient to reduce the fraud risk to a tolerable level.