



Fraud in Risk Management



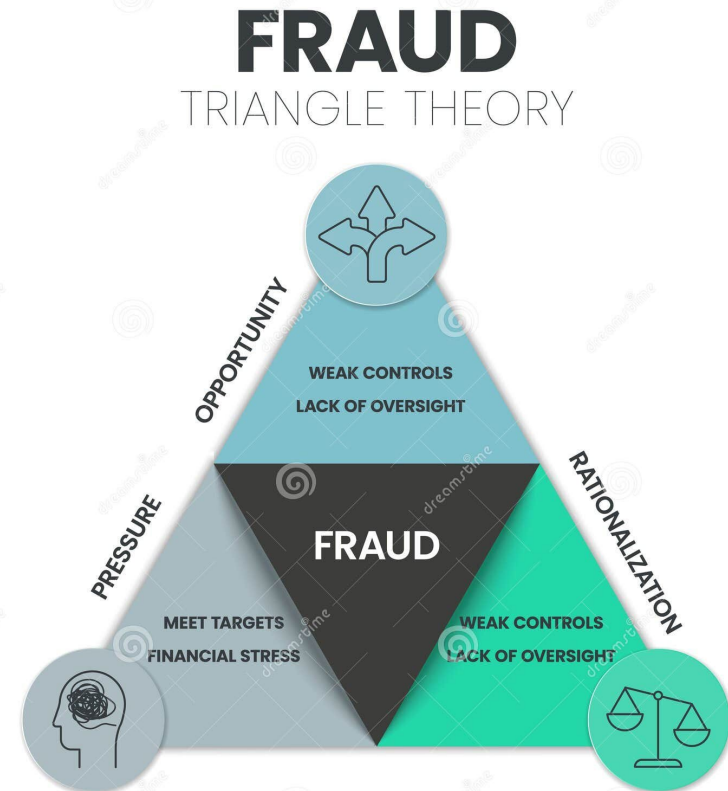
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Session Deliverables:

- Understand the ethics of risk mitigation in governance
- Learn communication strategies to overcome obstacles while identifying risk
- Learn to constructively accept the negative consequences of proactive risk mitigation
- Understand the chain of command's responsibility in managing the totality of risk and its integrity

Dr. Donald Cressey's Occupational Fraud Triangle Theory:

- Opportunity: Means and/or ability
- Rationalization: justification
- Pressure: personal or psychological need



Potential Fraudsters:

- Employees
- Contractors
- Cyber criminals
- Criminal property masterminds
- Organizationally siloed management



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Types of Fraud

- Internal
- External
- Vendor relationships
- Customer misrepresentations
- Financial malfeasance
- Asset misappropriation
- Bribery and corruption



Fraud Opportunities in Governance

- Financial polices and processes
- Human Resources
- Information Technology
- Purchasing
- Public Safety
- Public Works
- Risk Management



Financial Fraud Opportunities

- Budget manipulation: over or underbudgeting expense lines to transfer funds at a later date
- Setting aside monies in reserves for “special projects” to be used for other endeavors
- Manipulating asset management
- Personal data of employees and community members
- Workers Compensation management
- Lack of uniformity in payroll administration... tweaking time sheets and benefits

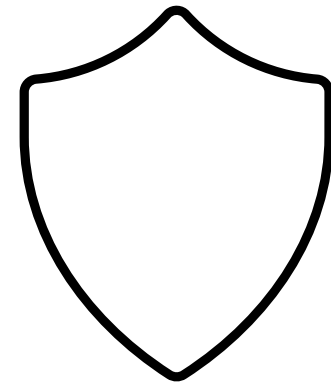
Purchasing Fraud Opportunities

- Purposefully inflating contract prices
- Bribery and collusion in bid practices
- Approving inflated or ghost invoices
- Dummy supply accounts
- Use of “committees” to rank bid responses without established parameters
- Political interference and manipulation



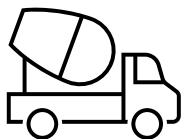
Public Safety Fraud Opportunities

- Building and Code Inspections
- Fire Extinguisher Inspections and Management
- Fire protection systems
- CPR Instruction
- Expert Witnesses
- Moonlighting
- Education for other entities



Public Works Fraud Opportunities

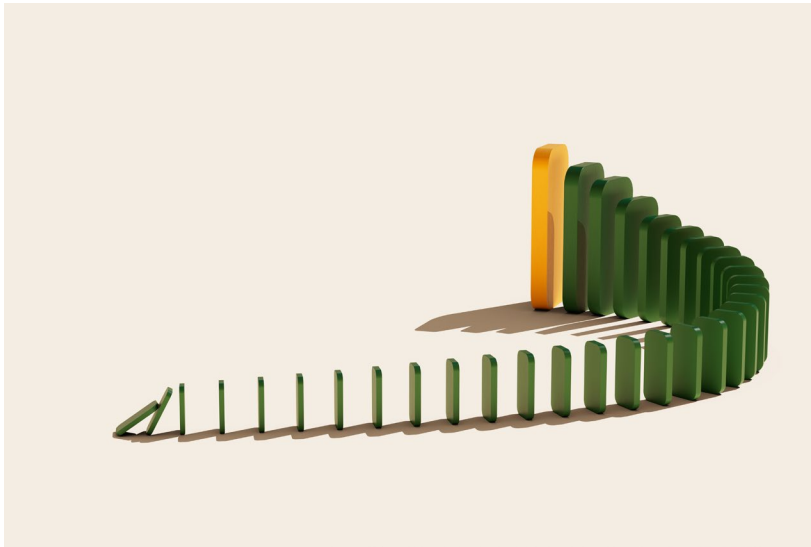
- Provision of gifts, benefits and contributions
- Bribes and kickbacks
- Sidewalks, driveways and sewer laterals
- Use of public facilities, tools and supplies for private enterprise
- Snowplowing and private property maintenance



Risk Identification Engagement

- Do you practice bottom up or top-down risk management?
- How do you engage with your constituency?
- What is the frequency of your risk partnership discussions and interactions?
- Are your communications “textbook” or “wiggly”?
- Who is the center of your risk universe?

Chain of Command in Risk: Who are your organization's...



- Risk Warriors?
- Chief Risk Officer?
- Chief Risk Champion?
- Policy decision makers?

Ethics in Risk Mitigation



- Establishment of a governing ethics policy and champion
- Integration of ethics into policies, protocols and programming
- Education and training in the rule of law

Obstacles Encountered Identifying Risk

- Management silos
- Personality perceptions
- Employee dissatisfaction
- Hostile workplaces
- Lack of program structure
- Political pressures
- Community pressures



Misrepresentations in Risk

The “little white lie” in:

- Financial statement preparation
- Insurance applications and programming
- Claims administration and management
- Risk governance



Consequences of Organizational Fraud

- Loss of trust in governance
- A breakdown of teamwork and organizational cohesion
- Increased scrutiny from law enforcement and regulatory bodies
- Loss of trust by the community
- Increased employee and management turnover
- Reputational damage
- Insurability

Overcoming Obstacles While Identifying Risk



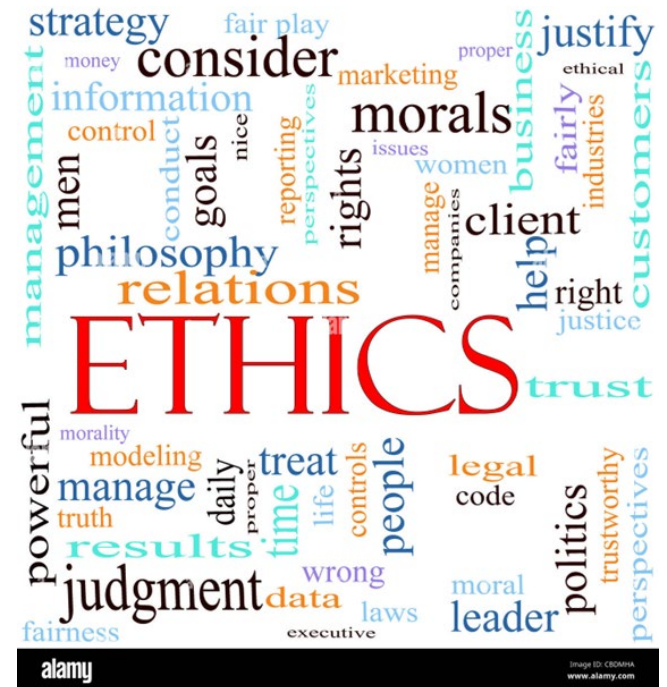
Five Key Best Practices for Fraud Risk Mitigation

- Risk governance
- Risk assessment
- Prevention and control
- Mechanisms for risk detection
- Risk monitoring, reporting and remediation



Loss Mitigation Opportunities for Fraud Management

- Robust internal controls
- Ethics awareness and training
- Regular risk assessments
- Fraud detection programming
- Enforcement of criminality
- Risk monitoring and remediation



Learning to let go of what you can't control in risk management....

- Trust and respect are essential for risk partnerships.
- Risk leadership relies on partnerships in governance.
- When partnerships come under attack and collapse, risk governance collapses...it's not your burden to carry.
- Acceptance of dysfunction is the ability to understand change is imminent and beyond your personal control.
- You cannot control the human reality of your workplace and the capacity of its disfunction.
- Political agendas have the capacity to derail proactive risk programming and mitigation.

Surviving the Negative Consequences of Risk Mitigation

- There are no “opinions” in risk management.
- Risk is best served by short, factual communication.
- Risk issues are partnership issues belonging to your risk team and governance structure.
- Risk survives when it relies on adopted policy, programming and protocols of risk governance.
- Risk governance is risk leadership and resides with your entity’s governing body.

Resources on Fraud Risk Mitigation

- COSO's "Fraud Risk Management Guide Executive Summary," [coso-fraud-risk-management-guide-second-edition-executive-summary.pdf \(acfe.com\)](https://www.acfe.com/coso-fraud-risk-management-guide-second-edition-executive-summary.pdf),
- US Department of Justice, [Criminal Division | Report Fraud \(justice.gov\)](https://www.justice.gov/criminal/CriminalDivision/ReportFraud)
- US Government Accountability Office, www.gao.gov
- Fraud.com

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Questions?



Thank you!

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