



# The Fraud Reduction and Data Analytics Act of 2015

KPMG Government Institute

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## New legislation to address fraud, waste, and abuse in the federal government.

Defrauding government programs is big business. Government leaders are under increasing pressure, with limited resources and more public scrutiny, to reduce or eliminate fraud, waste, abuse, misconduct, and improper payments (collectively referred to as FWA) in federal programs and operations. Focused directly on this issue, President Barack Obama signed into law the bipartisan Fraud Reduction and Data Analytics Act of 2015 (Public Law No. 114-186) on June 30, 2016.<sup>1</sup> Among other mandates, the legislation requires the Office of Management and Budget (OMB) to establish guidelines for federal agencies to use the Government Accountability Office’s (GAO) *A Framework for Managing Fraud Risks in Federal Programs* (GAO Framework) to implement control activities related to fraud risk management.<sup>2</sup> The goal is to prevent, detect, and respond to fraud. Included is the need to address the over \$100 billion of reported improper payments that have continued to plague federal programs and are subject to the requirements of the Improper Payments Elimination and Recovery Improvement Act of 2012.<sup>3</sup>

### GAO Framework’s focus on leading practices

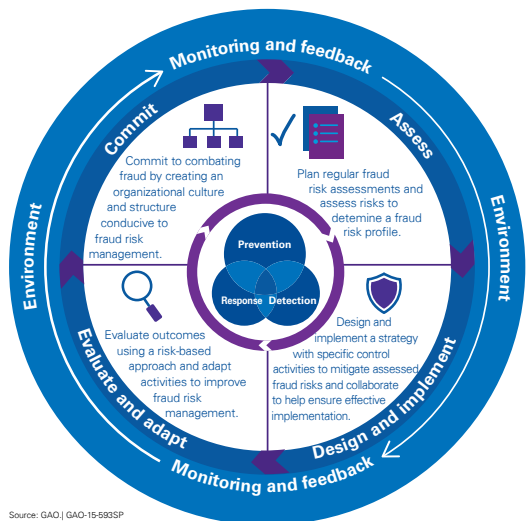
The GAO Framework, released in July 2015, is designed to aid in managing FWA risks. It supports principle 8 in GAO’s *Standards for Internal Control in the Federal Government* (Green Book) requiring that “[m]anagement should consider the potential for fraud when identifying, analyzing, and responding to risks.”<sup>4</sup> The 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>5</sup>”

The GAO Framework, shown below, identifies four overarching concepts, including:

- 1. Commit** – Commit to combating fraud by creating an organizational culture and structure conducive to fraud risk management (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.

### The GAO FRM Framework



Source: GAO | GAO-15-593SP

<sup>1</sup> See <https://www.congress.gov/bill/114th-congress/senate-bill/2133>.

<sup>2</sup> See <http://www.gao.gov/assets/680/671664.pdf>.

<sup>3</sup> See <https://www.gpo.gov/fdsys/pkg/PLAW-112publ248/content-detail.html>.

<sup>4</sup> *Infra*, fn 2.

<sup>5</sup> For fiscal year 2015, the reported improper payments were about \$137 billion government-wide, and total over \$1 trillion since 2003. See <http://www.gao.gov/products/GAO-14-704G> and <https://paymentaccuracy.gov/about-improper-payments>.



### Requirements of the Fraud Reduction and Data Analytics Act in a nutshell

The enactment of this legislation further reinforces the importance for federal agencies to identify, assess, and address fraud risks as Congress, OMB Inspectors General, and GAO, as well as the public, are demanding better fraud reduction results and more accountability regarding FWA from federal officials.

In addition to the mandate to implement the GAO Framework, highlights from the legislation include the following requirements of federal agencies:

- Conduct an evaluation of fraud risks
- Use a risk-based approach to design and implement financial and administrative control activities to mitigate identified fraud risks
- Collect and analyze data from reporting mechanisms on detected fraud to monitor fraud trends and use that data and information to continuously improve fraud prevention controls
- Use the results of monitoring, evaluation, audits, and investigations to improve fraud prevention, detection, and response

Additionally, there is a requirement that each agency submit as part of its annual financial report a report on its progress in:

- Implementing such financial and administrative controls, the fraud risk principle 8 in the Green Book, and OMB Circular A-123, *Management's*

*Responsibility for Enterprise Risk Management and Internal Control*, which calls for agencies to adhere to the leading practices for managing fraud risk<sup>6</sup>

- Identifying risks and vulnerabilities to fraud
- Establishing steps to curb fraud

A reputation for program integrity is critical to increasing and safeguarding public trust in government programs and operations while protecting government funds and other valuable public resources. If not properly managed, FWA will seriously undermine federal programs and operations and could lead to being included on GAO's High-Risk List,<sup>7</sup> and/or OMB's High Error Programs List,<sup>8</sup> as well as additional public scrutiny.

### Implementation considerations:

1. Establish senior-level commitment to fraud prevention, and identify a specific entity within the agency to lead FRM activities.
2. Define specific FRM roles and responsibilities that encourage and facilitate collaboration, and empower those who are designated those roles and responsibilities.
3. Conduct a meaningful fraud risk assessment, which includes identifying, assessing, and evaluating fraud risks.
4. Assess and evaluate existing fraud prevention and detection controls, which includes eliminating ineffective controls.
5. Identify potential fraud prevention and detection control deficiencies and gaps, and design controls to mitigate identified risks, taking into consideration costs and benefits.
6. Design and implement enhanced controls and activities, including data analytic capabilities designed to prevent and detect fraud.
7. Develop and communicate the agency's antifraud strategy, including a fraud response plan.
8. Strive for real-time continuous improvement by analyzing and learning from existing data, audits, and investigations to identify emerging fraud techniques.

<sup>6</sup> OMB Circular A-123, July 15, 2016, <https://www.whitehouse.gov/sites/default/files/omb/memoranda/2016/m-16-17.pdf>

<sup>7</sup> See <http://www.gao.gov/highrisk/overview>.

<sup>8</sup> See <https://paymentaccuracy.gov/high-priority-programs>.

## How 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 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 assists 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 the GAO Framework, enabling us to offer over a decade of meaningful, directly applicable experience working with leaders in applying a thorough framework.

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, assistance with 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, including incorporating and/or strengthening data analytic capabilities
- 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.



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