



Fraud Awareness and Controls Training

Presented to F\$M Project Leads

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Jim Wick

Robyn Hegarty

Session Objectives

- ◆ Increase Awareness of Fraud and Understanding of Internal Controls during the design phases of F\$M
- ◆ Add Value to LBNL By Sharing Tools and Methodologies of Risk Management
- ◆ Overview of OMB's A-123 Appendix-A Compliance requirements for LBNL



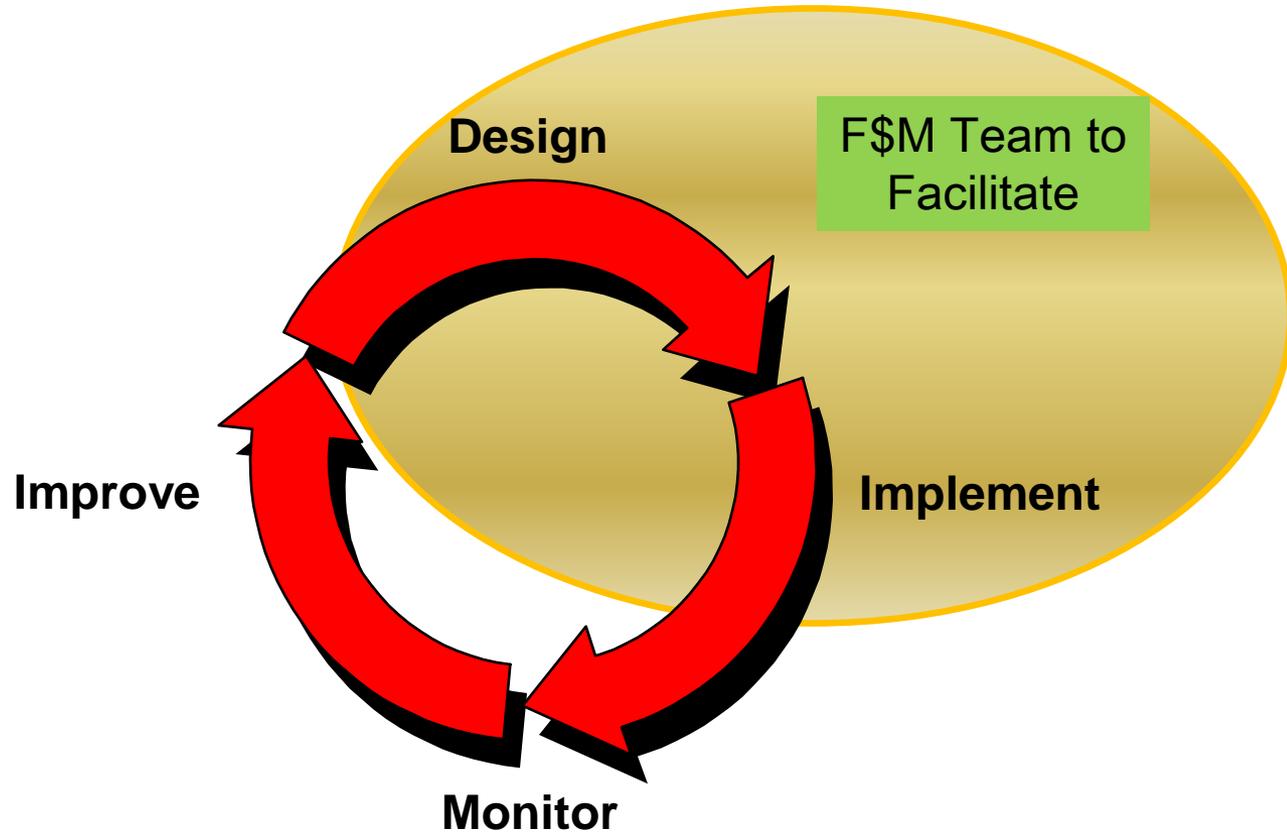
Awareness & Relevance

Why Is This Important?

- ◆ As a LBNL Employee
 - Gain awareness & industry understanding of fraud.
 - Understand internal control concepts surrounding quality processes.
- ◆ As an F\$M Team Member
 - Understand LBNL's fraud perspective.
 - Build robust controls that improve the quality of each process in the F\$M design phase so we do not have to do it later.
 - Design controls that are more efficient in the process i.e. automated and preventive.

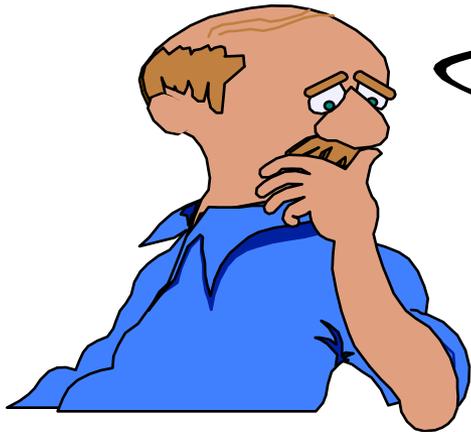


Internal Control Framework



Linking Risk with Internal Controls

What are Internal Controls
& Why are they Important ?



What is Risk?

A **risk** is a possibility of suffering harm or loss, or “what can go wrong”



Example:
The Airline Industry
Risks: Terrorism,
Bankruptcy...

What is a Control?

A control is an **activity** that **prevents** or **detects** errors to mitigate risks

Example:
The Airline Industry
Controls: Security
measures...





Two Basic Types of Controls

Control Types	Description	Examples
Preventive Controls	Prevent undesirable events from occurring Facilitate desirable events	<ul style="list-style-type: none">■ System controls preventing unauthorized access■ Restrictions of user overrides■ Segregation of duties■ Dual entry of sensitive managerial transactions
Detective Controls	Identify/Detect undesirable events	<ul style="list-style-type: none">■ Exception reports, management review and action taken on the exceptions

Example:
The Airline Industry
Preventive?
Detective?

Two Ways Controls are Executed

- **Manual** (performed by people)
 - ❖ Examples: Authorizations, Management reviews
- **Automatic** (embedded in application code)
 - ❖ Examples: Exception reports, Interface controls, System access



Example:
The Airline Industry
Manual controls? Automatic controls?

Control Categories

Control Category Legend	Description	Example
Authorization	Approval of transactions executed and access to assets and records only in accordance with management's general or specific policies and procedures.	Authorization limits.
Configuration/ Account Mapping	"Switches" to secure data against inappropriate processing.	Screen layouts with required fields.
Exception/ Edit Reports	Reports are generated to monitor something and exceptions are followed up to resolution. (Exception - a violation of a set standard, Edit - a change to a master file).	Reports of transactions exceeding limits.
Interface/ Conversion Controls	Controls over moving data between computer systems. Process used to migrate data from a legacy system.	Interface between AP system and GL system.
Key Performance Indicators	Financial and non-financial quantitative measurements that are collected by the entity and used to evaluate progress toward meeting objectives.	A/R over 90 days.
Management Review	A person different from the preparer analyzing evidence and performing oversight of the activities performed.	Manager review of reconciliations.
Reconciliation	Check whether two items (account balances, computer systems) are consistent. Items must be from different systems or records.	Reconciliation of A/R to G/L.
Segregation of Duties	Separation of duties and responsibilities for authorizing transactions, recording transactions and maintaining custody.	Staff who bill accounts receivable do not post cash collections.
System Access	Capabilities that individual users or groups of users have within a computer information system as determined by access rights are configured in the system.	Password protection linked to level of access.

Process Design

Segregation of Duties

Assign the following responsibilities to different individuals:

- ◆ Authorizing transactions.
- ◆ Recording transactions.
- ◆ Maintaining custody over assets.



Awareness & Relevance



~~FRAUD~~

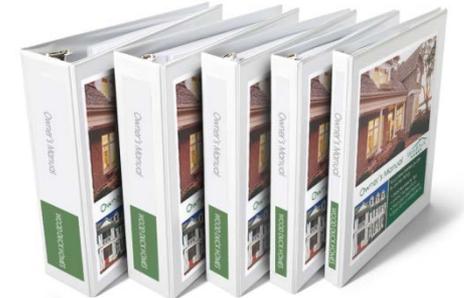
As an organization committed to the ethical values of integrity, excellence, accountability, and respect, fraud will not be tolerated.

Outsourced Copy Center Issue

- **A University is fraudulently billed by outsourced copying service center**
 - Invoices for large jobs submitted for work not performed
 - Contractor submitted billing files electronically
 - False billings to 30 or more cost centers totaling \$2 million

- **Punishment:**
 - DA prosecuted and perpetrator sent to prison

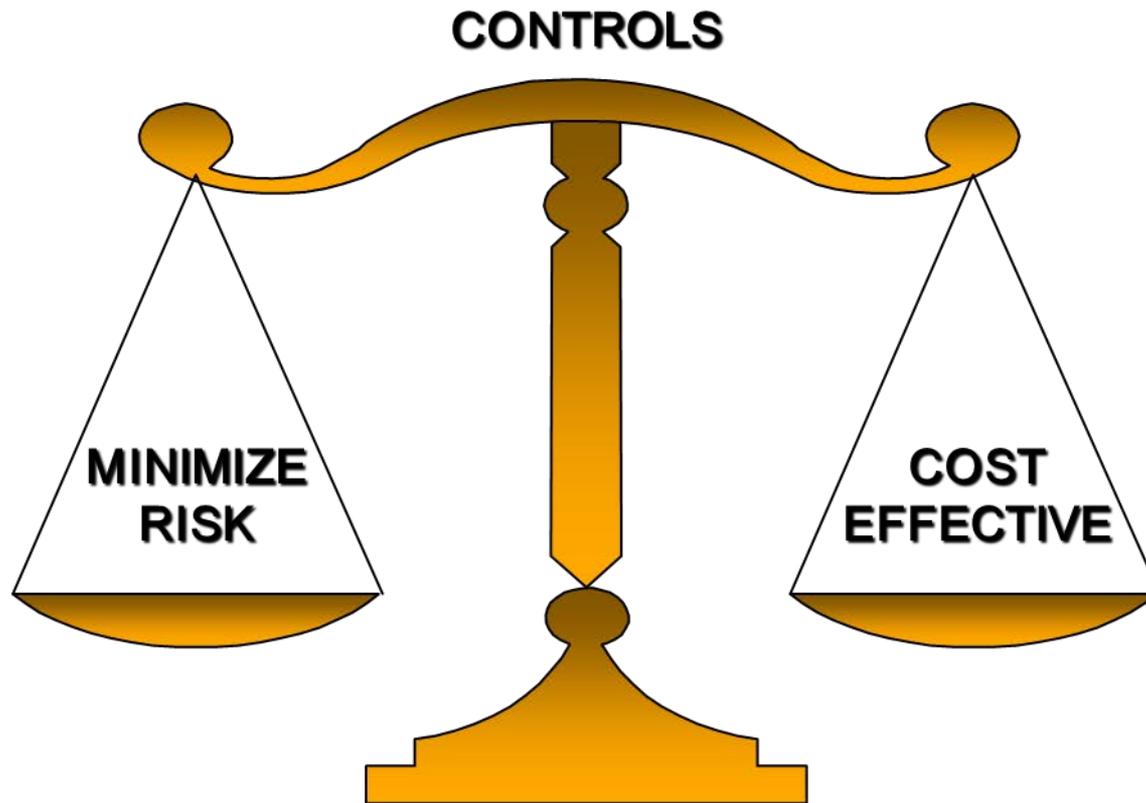
- **Missing Controls:**
 - Reviews of Expenditure Statements by managers of cost centers
 - Policies & Procedures on electronic billings from vendors
 - Reviews of Performance



Conference Management Issue

- Watch video at http://www.cbsnews.com/8301-18563_162-4161345.html
- As we discussed in class, everyone at DOE has been effected by these bad behaviors, especially with all the new rules, monitoring and audits that are now focused on conferences.
- What Internal Controls failed here?

Control Design



Control Rationale

Control = Quality

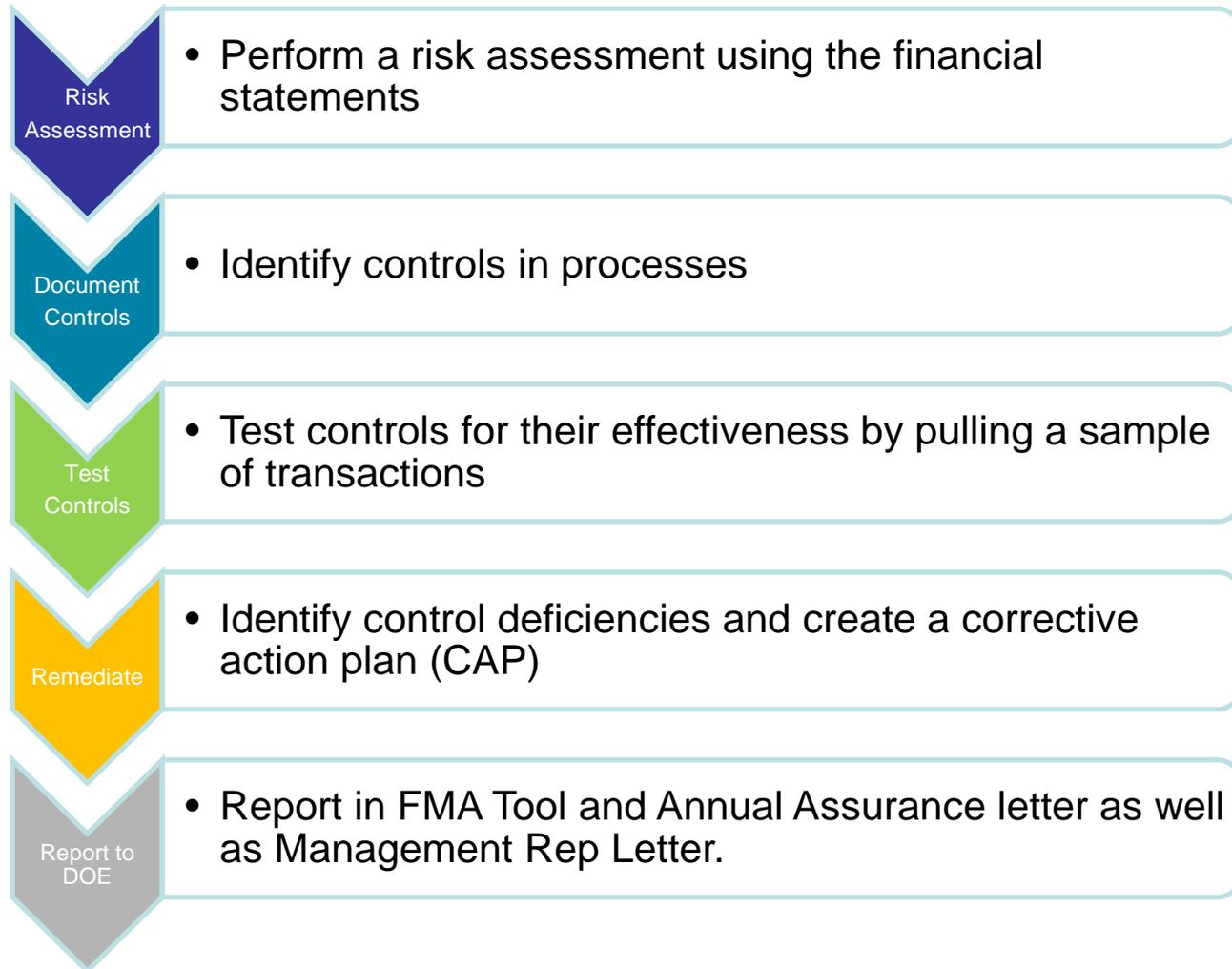
Benefit Derived > Cost of the Control

System Controls > Manual Controls

Preventive Controls > Detective Controls



A-123 LBNL Process



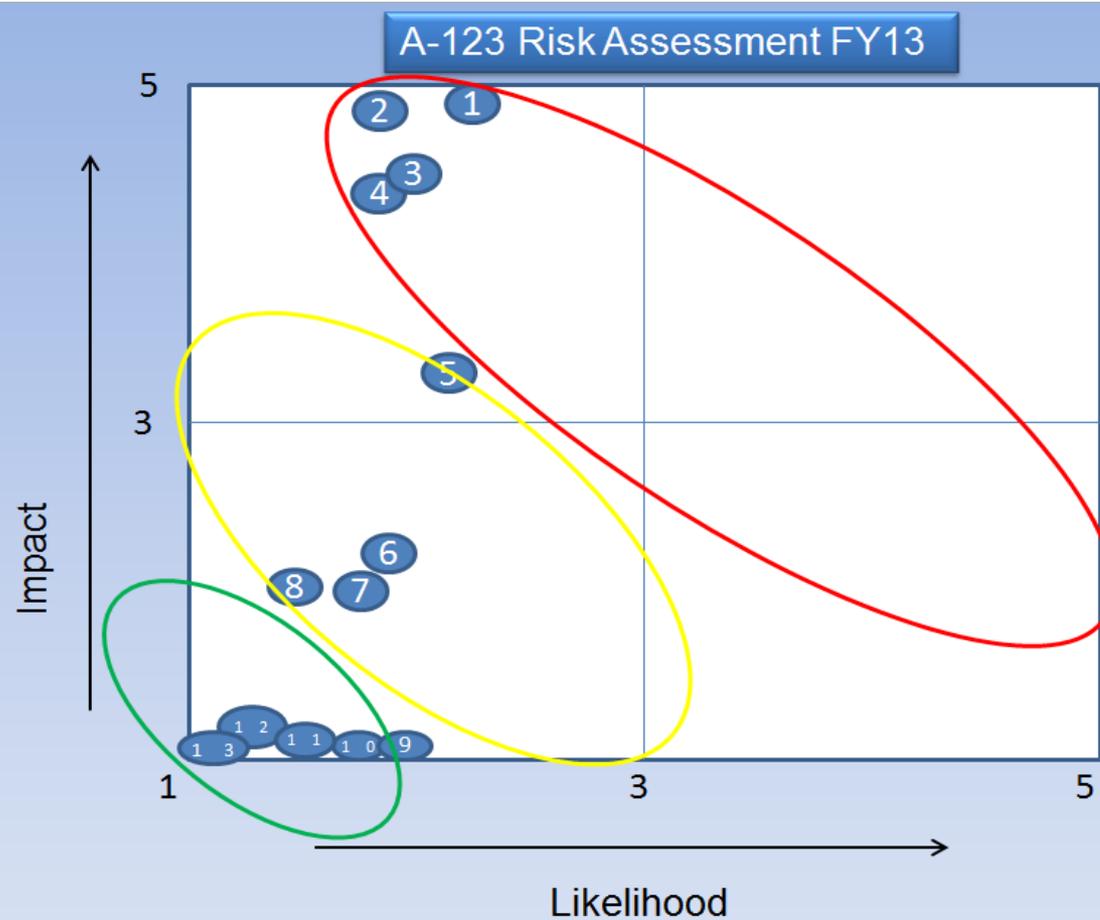
FY13 Risk Map

Local Risk Ranking

1. Environmental Liabilities
2. General Ledger Management
3. Funds Management
4. Property Management
5. Cost Management
6. Payroll Management
7. Acquisitions Management
8. Payables
9. Benefits Administration
10. Receivables
11. Project Cost Management
12. Travel
13. Revenue Recognition

DOE Focus Areas

- TBD in February



Key Control Summary-FY12

Process	Manual	Automated	Total
Funds	0	0	0
Cost	3	0	3
GL	5	1	6
Property	5	0	5
AP/Improper Payments	8	3	11
Project Cost Management	20	3	25
Acquisitions	19	6	25
Payroll	10	9	19
Environmental Liabilities	16	3	19
IT	5	7	12
Totals	91	32	123

A-123 Test Types

- Inquiry – *ask a question*
 - ❖ Interview staff to validate knowledge of a policy or requirement
 - *Inquiry alone is not a sufficient test*

- Inspection – *did it happen*
 - ❖ Review sample of source documents for evidence of control execution
 - ❖ Review exception reports and related documentation to identify preventive control failures and validate follow-up for risk occurrence
 - ❖ Reconcile process/system documentation to actual operation

- Observation – *watch it happen*
 - ❖ Monitor personnel to validate execution of manual controls
 - ❖ Observe occurrence of automated controls (e.g. popup warnings)

- Re-performing – *make it happen* (*Discuss before completing this test don't put dummy Trx in Production*)
 - ❖ Enter an illegal transaction to test control operation
 - ❖ Enter a valid transaction to test control operation

It is important to have evidence of the controls operation



Control Ownership



We all share controls ownership

Wrap-Up



Questions?

Contact – jwick@lbl.gov