Agenda

- Introductions and Overview
- What is a Performance Audit
- Four Phase Approach
- Risk Assessment
- Fraud Overview
Purpose of Performance Audits

• Program Results
• Need for Improved Performance
  – Reduced Resources
  – Increased Service Demands
  – Diminished Reserves
Four-Phase Process

- Startup / Management
- Fact Finding
- Analysis
- Reporting
Start-up and Management

- Identify key issues
- Finalize audit plan
- Develop interview list
- Request documents
- Define progress reporting and deliverables
Fact Finding – Document Review

• Gain breadth and depth of coverage
• Ensure confidential conversations
• Utilize standard questions and let discussions evolve naturally
• Build rapport with the interviewees
Fact Finding – Interviews

• Review historical performance and policy and political environment to understand how organization got to where it is today
• Document recent changes and impact on delivery
• Define service delivery requirements
• Identify relevant best practices and industry trends
Fact Finding – Walkthroughs

- Understanding the processes
- Document information flow
- Identify internal controls
- Identify relevant regulations, policies, and procedures
- Conduct sampling and testing
- Look for opportunities to streamline
Fact Finding – Surveys

- Confidential
- Online
- Broad participation
- Low cost
- Easy to administer
Analysis

- Assess economy, efficiency, and effectiveness
- Compare to best practices
- Perform gap analysis
- Identify alternatives
- Define costs and benefits
- Prepare findings and recommendations
Reporting

• Prepare draft report
• Prepare final report
• Develop implementation plan
• Incorporate management response
• Present to leadership and stakeholders
Risk Assessment Process
• What is an Internal Control?:

“Internal control is a process, effected by an entity’s board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to:

• Operations
• Reporting
• Compliance”

Source: COSO Internal Control Framework
Risk Assessment – Optimal Risk Taking

Risk Level

- Insufficient Risk-Taking
- Optimal Risk-Taking
- Excessive Risk-Taking

"Sweet Spot"

Expected Enterprise Value

Source: COSO Risk Assessment in Practice
Risk Assessment Overview

• What is a Risk Assessment?
  – Understanding the risk associated with a process and the impact the risk would have on the organization from an operational, financial, and strategic perspective if the risk would be realized

• Risk Assessment vs. Compliance Audits?

• Why do a Risk Assessment?:
  – Identify the “Sweet Spot”
  – Internal Audit plan based on risk
  – Limited personnel
  – Assistance with prioritization
  – Goes beyond compliance
  – Eliminates redundancy
Risk Assessment Overview

• Types of Risk Assessment:
  – Entity Wide
  – Departmental
  – Procedural
  – Regulatory Specific
Risk Assessment Framework

Audit Universe → Business Risks (Inherent Risks) & COSO Control Risks → Customized Checklists

Develop Risk Ratings → Perform Risk Assessment → Definitions of Risk Ratings

Assess Risk → Internal Audit Plan Based on Risk → Revisit Annually / Major Change
### Risk Assessment Heat Map

<table>
<thead>
<tr>
<th>Department /Process</th>
<th>Public Reputation</th>
<th>Financial</th>
<th>Operational</th>
<th>Legal Regulatory</th>
<th>Strategic</th>
<th>Technology /Systems</th>
<th>People /Culture</th>
<th>Fraud</th>
<th>Inherent Risk Rating</th>
<th>Control Environment</th>
<th>Risk Assessment</th>
<th>Control Activities</th>
<th>Information &amp; Communication</th>
<th>Monitoring</th>
<th>COSO Control Rating</th>
</tr>
</thead>
</table>
Fraud Overview
- Internal controls are only as good as the personnel performing the activities.

Source: ACFE
Fraud Overview

• 2014 ACFE Report To The Nations
  – Organizations lose approximately 5% of revenue due to fraud
    • Asset Misappropriation – 85.4% with median loss of $130,000
    • Corruption – 36.8% with median loss of $200,000
    • Financial Statements – 9.0% with median of $1 million
  – Fraud duration 18 months
  – Men (66.8%) vs. Women (33.2%)
  – 40% of cases were detected via Tip /Hotline
Figure 9: Frequency and Median Loss Based on Duration of Fraud

- Less than 7 months: $50,000
- 7-12 months: $88,000
- 13-18 months: $112,000
- 19-24 months: $150,000
- 25-36 months: $211,000
- 37-48 months: $363,000
- 49-60 months: $490,000
- 61+ months: $965,000

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**Figure 17: Type of Victim Organization — Frequency**

- **Private Company**: 37.9% (2014), 38.3% (2012), 42.1% (2010)
- **Public Company**: 20.5% (2014), 20.0% (2012), 32.1% (2010)
- **Government**: 15.1% (2014), 16.8% (2012), 16.3% (2010)
- **Not-for-Profit**: 10.8% (2014), 10.4% (2012), 9.6% (2010)
- **Other***: 7.7% (2014), 5.5% (2012)

*“Other” category was not included in the 2010 Report.*
Figure 18: Type of Victim Organization — Median Loss

**Other** category was not included in the 2010 Report.

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# Fraud Overview

**Figure 24: Frequency of Schemes Based on Industry**

<table>
<thead>
<tr>
<th>Industry/Scheme</th>
<th>Banking and Financial Services</th>
<th>Government and Public Administration</th>
<th>Manufacturing</th>
<th>Health Care</th>
<th>Education</th>
<th>Retail</th>
<th>Insurance</th>
<th>Oil and Gas</th>
<th>Transportation and Warehousing</th>
<th>Services (Other)</th>
<th>Construction</th>
<th>Religious, Charitable or Social Services</th>
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<tbody>
<tr>
<td>Cases</td>
<td>244</td>
<td>141</td>
<td>116</td>
<td>100</td>
<td>80</td>
<td>77</td>
<td>62</td>
<td>49</td>
<td>48</td>
<td>45</td>
<td>43</td>
<td>40</td>
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<tr>
<td>Billing</td>
<td>5.7%</td>
<td>19.1%</td>
<td>22.4%</td>
<td>29.0%</td>
<td>33.8%</td>
<td>10.4%</td>
<td>17.7%</td>
<td>24.5%</td>
<td>33.3%</td>
<td>28.9%</td>
<td>34.9%</td>
<td>32.5%</td>
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<tr>
<td>Cash Larceny</td>
<td>13.1%</td>
<td>10.6%</td>
<td>6.0%</td>
<td>12.0%</td>
<td>6.3%</td>
<td>15.6%</td>
<td>6.5%</td>
<td>2.0%</td>
<td>2.1%</td>
<td>11.1%</td>
<td>14.0%</td>
<td>7.5%</td>
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<tr>
<td>Cash on Hand</td>
<td>18.0%</td>
<td>12.1%</td>
<td>7.8%</td>
<td>16.0%</td>
<td>16.3%</td>
<td>22.1%</td>
<td>1.6%</td>
<td>2.0%</td>
<td>10.4%</td>
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<td>Check Tampering</td>
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<td>4.1%</td>
<td>20.8%</td>
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<td>Corruption</td>
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<td>37.0%</td>
<td>36.3%</td>
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<td>29.2%</td>
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<td>Expense Reimbursements</td>
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<td>12.8%</td>
<td>7.8%</td>
<td>23.0%</td>
<td>31.3%</td>
<td>3.9%</td>
<td>4.8%</td>
<td>14.3%</td>
<td>14.6%</td>
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<td>Financial Statement Fraud</td>
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<td>8.0%</td>
<td>10.0%</td>
<td>6.5%</td>
<td>3.2%</td>
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<td>10.4%</td>
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<td>11.6%</td>
<td>7.5%</td>
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<tr>
<td>Non-Cash</td>
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<td>8.1%</td>
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<td>16.7%</td>
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<td>0.0%</td>
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<td>2.3%</td>
<td>2.5%</td>
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<tr>
<td>Skimming</td>
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<td>4.3%</td>
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<td>20.0%</td>
<td>18.2%</td>
<td>22.6%</td>
<td>2.0%</td>
<td>6.3%</td>
<td>33.3%</td>
<td>7.0%</td>
<td>12.5%</td>
</tr>
</tbody>
</table>

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Figure 39: Primary Internal Control Weakness Observed by CFE

- Lack of Internal Controls: 37.8%, 35.5%, 32.2%
- Lack of Management Review: 17.9%, 18.4%, 20.9%
- Override of Existing Internal Controls: 19.2%, 18.8%, 10.8%
- Poor Tone at the Top: 6.4%, 8.4%, 8.4%
- Lack of Competent Personnel in Oversight Roles: 6.0%, 7.2%, 7.1%
- Other*: 4.9%, 4.9%, 2.2%
- Lack of Independent Checks/Audits: 5.6%, 3.3%, 3.5%
- Lack of Employee Fraud Education: 1.8%, 2.3%, 2.9%
- Lack of Clear Lines of Authority: 1.0%, 1.0%, 1.5%
- Lack of Reporting Mechanism: 0.8%, 0.8%, 0.7%

*"Other" category was not included in the 2010 Report.
Questions?

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