COUNTY OF MILWAUKEE
Inter-Office Communication

Date: June 18, 2024

To: Marcelia Nicholson, Chairwoman, Milwaukee County Board of Supervisors
             Jack Eckblad, Chair, Committee on Audit

From: Jennifer L. Folliard, Director of Audits, Audit Services Division

Subject: From the Director of Audits, an informational report on the 2023
             Comptroller's Office Pilot Fraud Risk Assessment

File Type: Informational Report

REQUEST
This report is for informational purposes. There is no request at this time.

POLICY
The Audit Services Division operates the countywide fraud hotline for reporting
allegations of fraud, waste and abuse. Inclusive in responding to fraud are proactive
measures to prevent and deter fraud from occurring.

Wisconsin State Statutes:	59.255(2)(i)
Milwaukee County Code of General Ordinances:	34.095

BACKGROUND
Starting in August 2023, the Comptroller's Office, led by the Audit Services Division
(ASD), launched a pilot fraud risk assessment which focused on three Comptroller's
Office divisions. The assessment field work ended in January 2024; management
provided its response in March 2024.

The goal of the pilot fraud risk assessment is to gradually expand the fraud risk
assessment process into other County departments, offices and divisions.

Per the Association of Certified Fraud Examiners (ACFE), a fraud risk assessment is "a
process aimed at proactively identifying and addressing an agency's vulnerabilities to
both internal and external fraud."

Fraud risk is the possibility that a person may gain something of value through willful
misrepresentation (being dishonest on purpose). Put simply, the goal of the fraud risk
assessment is to first think of all the ways a person may commit fraud against the
agency, determine how much the agency may be harmed by a fraud and then
determine what the agency may do to reduce the possibility of the fraud. Fraud risk
assessments are tools used by all levels of government, healthcare agencies,

universities and the private sector.

A fraud risk assessment generally includes the following steps:
1. Identify Inherent Fraud Risks
   a. Think: Be the bad guy and think about what frauds are <u>possible</u>
2. Assess Likelihood and Impact of Fraud Risks
   a. Think: How common & how harmful could this fraud be
3. Consider Internal Controls
   a. Think: What are we already doing to make it harder for the bad guy
4. Reassess Likelihood and Impact
   a. Key: This is our Residual Risk
5. Determine Fraud Risk Tolerance
   a. Key: How much fraud will we tolerate while doing our jobs
6. Respond
   a. Key: Focus on residual fraud risks which exceed the acceptable fraud risk tolerance
7. Document fraud risk profile
8. Report
9. Repeat

In the fraud risk assessment, the *inherent* fraud risks are considered first. This means possible frauds are estimated without considering the existing internal controls (rules, policies, procedures, etc.). Then, the agency considers the existing internal controls and how the existing internal controls affect the likelihood and impact on the agency from the fraud. The remaining fraud risk is *residual* risk. For example, there is an inherent risk that any County employee who receives and handles cash as part of their job will steal the cash. Existing internal controls such as worksite video recording, automatic receipt creation, second party verification of transactions and management messaging that stealing will not be tolerated are intended to reduce the possibility that someone will steal. Despite these preventative measures, a County employee may still steal or attempt to steal. This is residual risk.

<u>Pilot Fraud Risk Assessment of the Comptroller's Office</u>

ASD planned the fraud risk assessment using best practices, methodologies, guidance, templates and resources primarily taken from the ACFE, US Government Accountability Office (GAO) and the US Department of Treasury. ASD consulted other agencies and resources. ASD modified assessment tools as needed to best fit the Comptroller's Office.
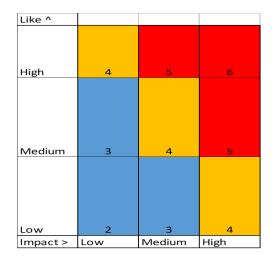
For the pilot fraud risk assessment, two tools were used: brainstorming sessions and a survey. Brainstorming sessions allow for direct input on fraud risks from the individuals who, by virtue of doing their jobs, are most knowledgeable about processes and any potential vulnerabilities. Surveys are useful in getting general information from many people.

For the brainstorming sessions, participating divisions were asked to provide information, such as the number of employees in the division, work location, primary mission, key functions and systems used. Then, over the course of two to three sessions, ASD and Division personnel considered approximately 30 fraud scenarios, such as, cash theft, timesheet fraud, collusion, staged workplace injuries and fraudulent vendors.

Division personnel were asked to consider if the likely fraudster were internal (ex., employee) or external (ex., random person) and what is the estimated likelihood and impact on the division if the fraud were to happen. Division personnel considered the fraud risk, first without, and then with internal controls (revised) in place. The metrics for likelihood and impact were low, medium and high.

For the pilot assessment, Division personnels' likelihood and impact evaluations are considered subjective or perception based.

ASD mapped the revised fraud risk threat estimations on heat maps. Heat maps help organize the findings by graphically showing the fraud schemes rated least concerning (colder) and those of greater concern (hotter).

Like ^			
High	4	5	6
Medium	3	4	5
Low	2	3	4
Impact >	Low	Medium	High

All Comptroller's Office personnel were asked to complete an anonymous survey about their work environment, leadership, process knowledges and behaviors. The survey consisted of 51 questions, not including a question about the individual's Comptroller's Office division. For example, staff were asked if they knew how to report a possible violation of the Milwaukee County Ethics Code, if Milwaukee County had a way to report fraud concerns, does password sharing happen in their division and have they clicked on a link in an IMSD training phishing email. The survey results can drive a response which is not tied to a specific fraud risk threat but would still have a benefit on the office.

Management is responsible for determining and setting the agency's fraud risk tolerance. Fraud risk tolerance is an agency's willingness to accept the risk of some fraud happening to the agency. Since eliminating all fraud risks are impossible,

establishing an acceptable threat level allows an agency to prioritize fraud risks and to focus its resources on fraud risks which exceed the acceptable level.

An agency's tolerance depends upon several variables, including but not limited to, its mission, necessary functions, business environment, regulatory and legal obligations, anti-fraud resources and public trust.

In a fraud risk assessment, a fraud risk tolerance level could be expressed as threats considered "low-low" or "medium-low" and below. Fraud risks above the tolerance level need to be prioritized and addressed.

After assessing fraud risk threats, establishing the risk tolerance level and prioritizing the fraud risks, the agency must determine an appropriate response. There are five general responses:

- Accept - take no action to lessen or avoid the risk.
- Avoid - the risk is eliminated by stopping a function or an action.
- Reduce - steps are taken to less the impact or likelihood of risk.
- Share - the risk is shared with another entity.
- Combination Approach - two or more courses of action are selected.

Accept is often used for fraud risks which are within the acceptable fraud risk tolerance, typically evaluated as low-low or medium-low. Reduce is when additional controls, safeguards or other actions are taken which are intended to strengthen vulnerabilities and make it harder for a fraud to happen.

Response considerations include additional costs, designating the party responsible for implementing and enforcing mitigation steps.

In the pilot assessment, the former Comptroller focused on the "red" items identified on the brainstorming heat maps to have a response other than "accept." The former Comptroller also looked at several non-red items which he felt could be addressed. Ongoing Comptroller responsibilities include performing the actions needed to meet the response decision and conducting another fraud risk assessment on an annual basis or as needed, such as in response to a major event or operational change.

ALIGNMENT TO STRATEGIC PLAN
Describe how the item aligns to the objectives in the strategic plan:

3B: Enhance the County's fiscal health and sustainability

The report describes a process to protect the County's financial and tangible resources from loss, misuse and exploitation.

FISCAL EFFECT
This pilot fraud risk assessment occurred during normal working hours, which likely

resulted in reprioritization of participating employees' activities. No extra funds were requested.

TERMS
N/A

VIRTUAL MEETING INVITES
N/A

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ATTACHMENTS:
N/A

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