Fraud Risk Management:

Fraud Awareness and Fraud Risk Assessment

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Executive Summary

Fraud and misconduct occurs in all organizations, of every size, in every industry, and in every city. The best way to fight fraud and misconduct is to prevent it from happening in the first place. It is much more cost effective to proactively address fraud risks than to suffer preventable fraud and spend valuable resources trying to detect, investigate, prosecute, and clean up after it. Therefore, the Office of the City Auditor included a proactive Fraud Risk Management Project in its *2016 Annual Work Plan*.

This project is part of a multi-year program aimed at identifying, assessing, and managing the City's fraud exposure. This particular project focused on two key aspects of fraud risk management: fraud risk assessment and fraud prevention. We completed the following activities for this project:

Fraud risk assessment
- Developed a fraud risk assessment toolkit for supervisors and managers to proactively identify and address fraud vulnerabilities in their business areas.
- Piloted the toolkit in five business areas. In total approximately 200 City of Edmonton employees participated in the five workshops.
- Conducted a survey with workshop participants.
- Made the toolkit available to supervisors and managers through onecity.edmonton.ca

Fraud risk prevention
- Developed a cohesive communication strategy so that the most effective ways to promote an anti-fraud culture and communicate fraud matters to staff and other parties are utilized.
- Conducted a benchmark study of seven other Canadian municipalities to obtain information about fraud prevention and fraud risk assessments.
- Launched two new web pages with information and tools on how to **Recognize, Report and Stop Fraud** on onecity.edmonton.ca
- Created a Fraud Awareness presentation for supervisors and/or managers to give to their employees. The presentation is available on onecity.edmonton.ca
- Published an article in Great City News (March 2016)
- Initiated a poster campaign (April 2016)

The OCA will continue to support the City's Fraud Risk Management efforts by managing and updating the websites and facilitating Fraud Awareness Presentations throughout the organization as requested.

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1.   Introduction

The City of Edmonton values integrity and ethics, and expects its employees to demonstrate civic values by working responsibly, being trustworthy and behaving ethically. In addition, the City which derives significant proportion of its income from public funds has a particular responsibility to ensure that income and resources are solely used for the purposes intended. Unfortunately, fraud and misconduct occurs in all organizations, of every size, in every industry, and in every city. No entity is immune.

The best way to fight fraud and misconduct is to prevent it from happening in the first place. It is much more cost effective to proactively address fraud risks than to suffer preventable fraud and spend valuable resources trying to detect, investigate, prosecute, and clean up after it. The aftermath of fraud is costly, time-consuming, and disruptive. Therefore, the Office of the City Auditor included a proactive Fraud Risk Management Project in its *2016 Annual Work Plan*.

2.   Background

2.1.   The City's Leadership Principles

The City's commitment to building a culture of integrity and ethics is represented by the City's commitment to its five leadership principles. Each employee of the City is expected to be a leader; which is defined as "a visionary, credible and trusted role model who inspires and challenges others to achieve their full potential." The City's five leadership principles are listed in Figure 1.

Figure 1: The City of Edmonton's Leadership Principles

By initiating this proactive Fraud Risk Management project, the OCA wants to empower employees to demonstrate the leadership principles: "We do as we say", which means we lead by example, walk the talk, are accountable, trustworthy and honest, and "I make a difference every day," which is about individuals making a difference no matter where they are in the system.

2.2.　　Managing the Risk of Fraud

This project is part of a multi-year program aimed at identifying, assessing, and managing the City's fraud exposure. The program outlines five key principles for proactively establishing an effective Fraud Risk Management Framework (FRM). The five key principles are listed in Figure 2.

Figure 2: Key principles of Fraud Risk Management:

Principle 1 **Fraud Risk Management Program**	• As part of an organization's governance structure, a Fraud Risk Management (FRM) Program should be in place, including a written policy (or policies) to convey the expectations of the board of directors and senior management regarding managing fraud risk.
Principle 2 **Fraud Risk Assessments**	• Fraud risk exposure should be assessed periodically by the organization to identify specific potential schemes and events that the organization needs to mitigate.
Principle 3 **Fraud Prevention Techniques**	• Prevention techniques to avoid potential key fraud risk events should be established, where feasible, to mitigate possible impacts on the organization.
Principle 4 **Fraud Detection Techniques**	• Detection techniques should be established to uncover fraud events when preventive measures fail or unmitigated risks are realized.
Principle 5 **Reporting**	• A reporting process should be in place to solicit input on potential fraud, and a coordinated approach to investigation and corrective action should be used to help ensure potential fraud is addressed appropriately and timely.

Source: Institute of Internal Auditors, the American Institute of Certified Public Accountants, Association of Certified Fraud Examiners, *Managing the Business Risk of Fraud: A Practical Guide* (2009).

Reviewing and strengthening these principles over time will help ensure that there is suitable oversight of FRM in the City; that fraud exposures are identified and evaluated; that appropriate processes and procedures are in place to manage those exposures; and that fraud allegations are addressed in an appropriate and timely manner.

The first principle, the City's fraud risk governance structure, was assessed in 2010 and resulted in updating the Fraud Directive (A1454), Whistleblower Protection Directive (A1455) and the Employee Code of Conduct, including all associated training materials.

This project focused on the second and third principles: fraud risk assessment and fraud prevention. Appendix 1 provides a detailed description of our objectives, scope and methodology.

3.   Summary of Activities

3.1.   Fraud Risk Assessments

Our first objective was to develop a fraud risk assessment tool kit for supervisors and managers to proactively identify and address vulnerabilities in their business areas to both internal and external fraud.

Fraud risk assessments can help management identify where fraud is most likely to occur, prioritize fraud risks, consider proactive measures and implement them to reduce the chance of fraud. In addition, fraud risk assessments are a way to stimulate communication and raise awareness about fraud. When employees are engaged in an open discussion about fraud, the conversations themselves can play a role in reducing the risk of fraud. Figure 3 provides an overview of a fraud risk assessment process.
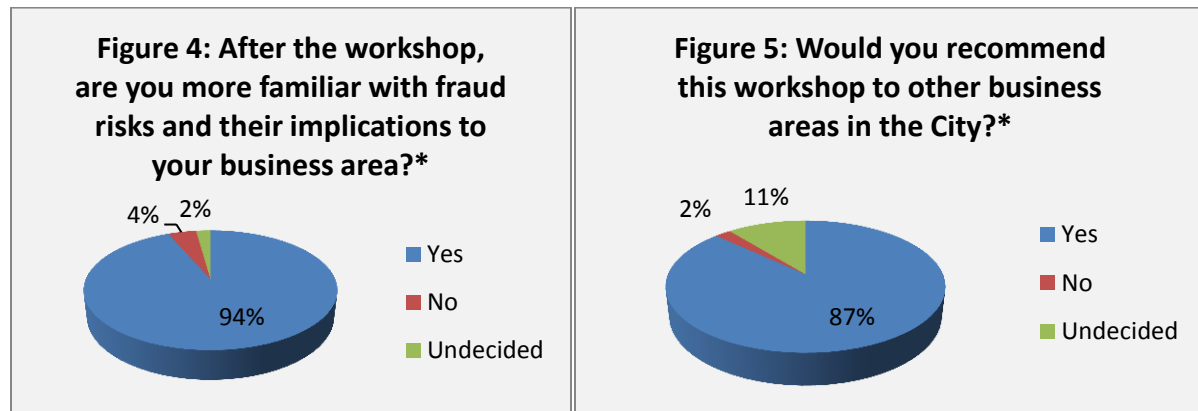
Figure 3: High-level Fraud Risk Assessment Process

To assist business units in conducting fraud risk assessments, the OCA developed a fraud risk assessment toolkit. The toolkit consists of:

- Fraud Risk Assessment presentation (to facilitate a workshop)
- Support paper containing examples of fraud schemes and controls
- Templates (e.g. fraud identification and assessment matrix)

The toolkit was piloted in five business units; one in each department with the exception of the newly formed Communications & Public Engagement Department. In total approximately 200 City of Edmonton employees participated in the five workshops. A survey was conducted after the workshop to obtain feedback from participants. Forty-six participants (23%) completed the survey. Overall, the workshops were well received. Some responses are provided below:

Figure 4: After the workshop, are you more familiar with fraud risks and their implications to your business area?*

4% 2%

94%

- Yes
- No
- Undecided

Figure 5: Would you recommend this workshop to other business areas in the City?*

2% 11%

87%

- Yes
- No
- Undecided

Additional survey results:

- 56.5% of respondents (26 participants) indicated that after attending the workshop, they know enough about performing fraud risk assessments to feel comfortable using them in their business areas. An additional 17 respondents (37%) indicated that they are undecided.
- 52.2 % of respondents (24 participants) indicated that after attending the workshop, they can explain the fraud risk assessment process to another individual in their business area. An additional 14 respondents (30.4%) indicated they are undecided.

- Some comments from participants:
    - The only way fraud will be addressed is if it's built into the mindset of people and they set time aside at some point to review their systems and purposefully look for gaps. The training was very helpful in terms of providing the tools to do so. Now we have to own it!
    - I provided the Fraud Awareness presentation to my staff for their information.
    - There may be some reluctance from the staff to identify fraud opportunities as it could appear to his/her co-workers that that person may have either committed that fraud or witnessed it.
    - I found it meaningful to assess the risks in my particular area. It is something that I hadn't really thought about in the past.
    - I enjoyed the group work - particularly identifying risks in the area and then analyzing the information was eye-opening.
    - I found it to be an eye opener how vulnerable we are to fraud.

The toolkit is now made available to supervisors and managers on the City's intranet. http://onecity.edmonton.ca/managing_supervising/conduct/fraud/fraud-risk-assessment.aspx

Business areas will not be required to report the results of the fraud risk assessment to the OCA. The results are intended for management to act upon. However, the OCA will maintain a record of business units that have completed a fraud risk assessment workshop.

3.2.   Fraud Prevention and Awareness

Our second objective was to develop a cohesive communication strategy so that the most effective ways to promote an anti-fraud culture and communicate fraud matters to staff and other parties are utilized.

Fraud prevention techniques encompass many elements, for example: Code of Conduct, (signing) authority limits, segregation of duties, background checks of new employees, and other types of internal control. The City has many of these elements in place. However, fraud prevention also includes making staff and management throughout the organization aware of how fraudulent actions harm the organization and what part they are expected to play in preventing fraud.

The OCA completed the following actions:

- Conducted a benchmark study of other major Canadian municipalities to obtain information about fraud preventative measures in place, fraud awareness communication strategies, anti-fraud training and fraud risk assessments. We received responses from 7 municipalities and the following key points became clear:
  - Municipalities are at different maturity points in their fraud prevention and awareness initiatives:
    a. Most municipalities have a fraud policy, a code of conduct and/or whistleblower policy in place. However, these documents are not regularly communicated (annually or bi-annually).
    b. Five municipalities have a fraud hotline in place.
    c. One municipality has a fraud awareness communication strategy in place. Five municipalities use one or more methodologies to convey fraud awareness but these methodologies are not linked through a cohesive strategy. Most common tools are posters or leaflets and information on Intranet (such as designated page for a fraud hotline). The key messages are 'Encourage employee ethical conduct' and 'Duty to report'.
    d. Two municipalities offer mandatory anti-fraud training but do differ in delivery method. Five municipalities indicated they do not offer any kind of anti-fraud training. Based on this information it seems that Edmonton is advanced with its mandatory Code of Conduct e-learning modules for new employees and supervisors.
  - Municipalities do not have fraud risk assessment programs in place for their organizations.

- Developed a Fraud Awareness Communication Strategy. A joint task force consisting of representatives from the Office of the City Auditor, Corporate Security, Labour Relations and the Corporate Communications Office determined that the strategy should focus on conveying the following messages:

  o **Creating an anti-fraud culture** – This involves changing the attitudes and perceptions of fraud within the organization so that there is a willingness, and confidence, to report any knowledge or suspicion of fraud. The need to protect the organization from fraudulent activity needs to be seen as the joint responsibility of everyone within the organization.

  o **Deterrence** – This message relays that peer group pressure can make potential fraudsters feel that what they are contemplating is unacceptable. It reduces the ability to rationalize bad behavior. The deterrent factor is about the extent to which potential fraudsters believe that if fraud is attempted it will be detected and prevented from succeeding.

  o **Prevention** – This involves raising awareness of the types of fraud that may occur and communicating this to managers, supervisors, budget holders, risk groups, and other relevant stakeholders within the City to ensure that systems being operated are not open to fraud occurring unchallenged or undetected.

  o **Detection** – This involves enforcing the message for all staff to remain vigilant and open to the possibility of fraud being attempted. It also focuses on what action to take if a potential fraud has been detected. Finally, it needs to emphasize support for staff who report such concerns so that confidence in the system can be maintained.

  o **Sanctions and redress** – Communication in this area enhances the message that fraud within the City will not be tolerated and that the organization, and the City, will pursue full sanctions whenever appropriate to do so.

- Launched two new web pages with information and tools on how to Recognize, Report and Stop Fraud: one for all employees, and one specifically directed at supervisors and managers:
  - http://onecity.edmonton.ca/working_for_the_city/conduct/fraud-awareness-prevention.aspx
  - http://onecity.edmonton.ca/managing_supervising/fraud-awareness-prevention.aspx

  Both websites have the same structure as presented in Picture 1. Between March and June, 2016, there were over 500 visits to the websites.

- Created a Fraud Awareness and Prevention presentation (approximately 15 minutes) for supervisors and/or managers to give to their employees. The presentation is available on onecity.edmonton.ca (Managing & Supervising)

- Published an article in Great City News (see appendix 2)
- Initiated a poster campaign (see front page of report)
- Created three Fraud Prevention Tip Sheets and posted these on onecity.edmonton.ca (Working for the City). See appendix 3 for an example.

Picture 1: Structure of Websites

Fraud Awareness & Prevention

Recognize It
Fraud can come in many forms from minor theft to complex schemes.

Report It
What can you do if you've found red flags or observed an instance of fraud or misconduct?

Stop It
Prevention is the most proactive fraud-fighting measure.

Hotline
Provides employees with an alternative for reporting inappropriate activities of other City employees.

On June 2, 2016, the Office of the City Auditor was invited to give a Fraud Awareness Presentation to approximately 50 staff members in the Facility and Landscape Infrastructure Branch (Integrated Infrastructure Services Department). The feedback received from management after the presentation was very positive.

The OCA will continue to support the communication strategy by managing and updating the websites with quarterly fraud prevention tips and posting relevant news stories.

4. Conclusions

The OCA will continue to support the City's Fraud Risk Management efforts by managing and updating the websites and facilitating Fraud Awareness Presentations throughout the organization as requested.

The OCA would like to thank management and staff of Labour Relations, Corporate Security and Communications for their assistance throughout this project. In addition, we would like to thank the participants of the Fraud Risk Assessment Workshops for their participation, it was very much appreciated.

Appendix 1 – Objectives, Scope and Methodology

Proactive project objectives

The objectives of this proactive Fraud Risk Management project were to:

- Develop a fraud risk assessment tool kit for supervisors and managers to proactively identify and address vulnerabilities in their business areas to both internal and external fraud.

- Develop a cohesive communication strategy so that the most effective ways to promote an anti-fraud culture and communicate fraud matters to staff and other parties are utilized.

Scope and methodology

The scope of our project included all City Departments that report to the City Manager. As such we scoped out Edmonton Police Services and Edmonton Public Library.

This project included developing a fraud risk assessment tool for business units to use independently. We tested and piloted the tool in five business units, one for each of the City's departments except the newly formed Communications & Public Engagement Department.

In addition, the OCA facilitated a workshop with representation from Corporate Security, Labour Relations and Internal Communications. We developed a corporate fraud awareness communication strategy for the corporation. This strategy includes communication methods that were already in place in the City prior to this project. We did not assess the effectiveness of these existing communication strategies, but rather focused on incorporating these methods into a cohesive fraud awareness communication strategy. In addition, we supplemented the existing methods with new methods as appropriate.

Appendix 2 – Article Great City News

The Other F-word - "Fraud"

March 16, 2016

 "Congratulations! Your name was drawn from hundreds of entries all across the country. You've just won a free vacation! All I need from you is your full name and a valid credit card number to secure your prize."

Does this scenario sound familiar? If so, welcome to the unpleasant world of fraud.

Roughly 1-in-10 adults will fall victim to fraud, often scammed by some fraudulent prize promotions, identity theft, work-at-home programs, unauthorized billing and more.

A single scam can destroy a company. It can devastate a family by wiping out their life savings. It can cost taxpayers millions of dollars. Recovering from fraud can be stressful and an overwhelming experience for individuals as well as organizations.

"Employees are often the first ones to detect fraud," says David Wiun, City Auditor, "Employees have a big role to play in protecting the City from internal and external fraudulent activities."

On Tuesday, March 1 National Fraud Prevention Month was proclaimed in Edmonton. In an effort to educate City employees about the devastating impact of fraud and curb the risk of fraud, the Office of the City Auditor, with the support of Corporate Leadership Team (CLT), is launching a City-wide campaign to coincide with Fraud Prevention Month. "Recognize it. Report it. Stop it."

"Edmontonians trust the City of Edmonton to operate and take care of City assets and resources in an honest and ethical way. So if we see something that we know isn't right, it's important to tell someone. Whether that be your supervisor, the City Auditor, or the Fraud Hotline if you wish to remain anonymous," says Linda Cochrane, Acting City Manager.

The City of Edmonton's Fraud Awareness and Prevention campaign is aimed to foster a culture of integrity and accountability within the City of Edmonton and encourage staff to remain vigilant. The campaign includes:

- Launch of two new web pages with information and tools on how to Recognize, Report and Stop Fraud: all employees and supervisors and managers
- Fraud Awareness and Prevention presentation available for supervisors and/or managers to give to their employees
- Fraud Risk Assessments tools will be made available for managers to use. A pilot project is currently underway in five business areas to test the tools
- Quarterly Fraud Prevention Tips

To learn more, please visit Fraud Awareness.

Appendix 3 – Fraud Prevention Tip (example)

Keeping Your Information Safe: Password Security

Password security – are your online passwords strong enough?

If you have any type of online account, chances are you have a password. Some are numbers, others are letters, and some are a combination of both. Passwords help to protect your information from being accessed by unauthorized users. But it's important to ensure that those passwords are unique and not easy to guess. So how do you determine if your passwords are strong enough?

Password security has been in the news recently with the warning that sharing your passwords across different websites could be risky. If a breach occurs on one website, thieves could attempt to use that password on other sites you visit to gain access to your accounts or steal your identity.

How to Create Strong Passwords

- **Choose unique passwords:** Avoid using passwords that are based on your birthday, on a name, pet, telephone number or event. Make sure that they are difficult to guess, but ones you can remember without writing them down.
- **Use combination passwords:** Create passwords that contain various characters, meaning, upper and lower case letters, numbers and symbols.
- **Use long passwords:** Create passwords that are at least eight characters long. The longer your password is the less likely someone is going to guess it.

How to Protect Passwords

- **Memorize your passwords and PINs:** Do not write them down or disclose them to anyone, especially online, not even to the police, your financial institution, your insurance company or your internet service provider.
- **Use a variety of passwords:** Make sure to use different passwords and PINs for the different accounts that you have. Thieves will often steal passwords from less secure sites and use the information on more secure sites.
- **Do not save passwords** on your computer, on the Internet or on any software. Make sure that you have to input your password every time you log on to a website by disabling AutoComplete or any other program that saves passwords on your computer.
- **Change your password** at least every 3-6 months to help keep your information secure.

Source: http://www.cba.ca/tips/en/content/consumer/tips/August_EN12.html