NOTES FROM THE:

Auditor General of the Air Force

by Mr Jackie R. Crawford

The Fraud/Internal Control Connection

Audit standards require auditors to assess the effectiveness of internal controls, apply necessary and reasonable audit steps to evaluate the potential for fraud, and document the results. While fraud surfaces in many different forms, our audits often identify a common cause—a breakdown of internal controls. The following paragraphs provide examples of fraud identified in recent audits, discuss management internal control responsibilities, and describe efforts to increase our emphasis on fraud awareness.

Fraud Examples

At an Air Force medical center, auditors identified a military member who accepted gratuities from a contractor in exchange for favorable consideration on purchases. This member controlled approximately 95 percent of the purchases in his area, yet contracting officials did not monitor his transactions or properly separate his duties between ordering and receiving functions.

A Contractor-Operated Parts Store contractor overcharged the Air Force $537,000 over a 2-year period. Contracting and transportation personnel did not properly review the invoices before payment.

Auditors worked with Air Force Office of Special Investigations (AFOSI) agents at two different locations to disclose $291,000 in fraudulent civilian direct deposits to a "ghost" employee and a $550,000 embezzlement in a paying and collecting section. Poor internal controls, primarily improper separation of duties, enabled employees to commit these fraudulent activities over a period of years.

A base dining facility contractor embezzled $111,000 over a 4-year period. This fraud went undetected because the quality assurance evaluator, a key internal control, did not properly reconcile cash deposited with cash register tapes.

A contractor double-billed the government $371,000 for health care provided to DoD personnel. Established internal controls broke down when Air Force medical treatment facility personnel approved contractor invoices without proper review.

Management Responsibilities. Along with auditors and investigators, management also plays a vital part in fraud detection and prevention. The above examples illustrate the consequences when internal controls break down. In most cases, adequate internal controls existed but were not fully implemented. Air Force managers should periodically verify that their staffs understand and follow established internal control procedures. Effective implementation of internal controls becomes increasingly important as staffing levels decrease and management reforms occur. In addition, the transition to a near paperless environment will provide new challenges for combating fraud. To aid managers in this effort, AFAA auditors are available to provide internal control training when requested.

Recent Initiatives. To more effectively address fraud concerns, our Agency has taken several steps to increase auditor fraud awareness. We recently published a Fraud and Waste Indicators Handbook that included "red flags," or indicators of potential fraudulent activity, in various functional areas. Additionally, we developed a fraud auditing course that every AFAA auditor will attend, and we are sending auditors to other fraud courses and seminars, including functional training provided by the AFOSI. To improve our knowledge of potentially illegal activities, our installation-level auditors will work more closely with AFOSI personnel. Finally, we are establishing a team to develop additional methods for improving our effectiveness in reviewing internal controls and auditing for fraud.

Conclusion. As you can see, auditors and investigators are working hard to ferret out fraud. Likewise, Air Force managers play a critical role in combating fraud by maintaining strong internal controls and taking prompt corrective action where controls are not properly applied. Working together, we can effectively protect Air Force resources.