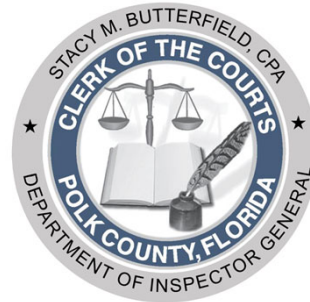


When Auditors Become Investigators... and Vice Versa

Lita McHugh, CPA, CIG, CIGI
Inspector General
Polk County Clerk
August 4, 2023



1

Objectives

- ▶ Identify types of investigations that auditors may be asked to perform
- ▶ Understand the link between common control weaknesses and fraud
- ▶ Gain an understanding of basic best practices for conducting investigations
- ▶ Develop skills and procedures to conduct meaningful investigations
- ▶ Recognize pivot points that indicate audit follow-up needed after investigation

2

Content

- ▶ Role of auditor in initiating investigations
- ▶ Case studies (and lessons learned)
- ▶ Role of internal controls to prevent fraud
- ▶ Investigations 101
 - Intake
 - Planning
 - Interviews
 - Reporting and wrap-up
- ▶ Pivoting back to auditing

3

Auditors as Investigators

- ▶ Subject matter experts
- ▶ Access to data and applications
- ▶ Does your internal audit charter authorize you to perform investigations?
 - Auditor's decision entirely?
 - At someone's request?
 - Part of job description?
- ▶ Types of investigations
 - Theft
 - White collar fraud
 - Criminal – referral or full workup?

There is an expectation that auditors will detect fraud

4

Fraud detection programs

- ▶ Public expectations versus your mission
- ▶ What kind of fraud are you looking for?
- ▶ 90% of complaints will be:
 - Not in your jurisdiction
 - Not fraud
 - Unfounded
- ▶ Best sources of useful complaints
 - From within your agency
 - Resulting from interactions with your team
 - Intra-agency advertising: posters, video

5

How it begins...

- ▶ Unpredictable
- ▶ Tip from public or agency officials
- ▶ Don't have all the facts
- ▶ Incomplete knowledge of agency program involved
- ▶ Complainant may have a hidden agenda
- ▶ Complainant may not provide all relevant facts (aka, lie)
- ▶ Never come at a good time for workload

6

Types of investigations

- ▶ What kinds of investigations might an auditor be asked to perform?
 - Theft of funds
 - Theft of assets
 - Theft of time
 - Alleged falsification of documents
 - White collar fraud schemes
 - Noncompliance with grant requirements

7

What NOT to investigate

- ▶ What kinds of complaints don't merit an investigation?
 - Bad customer service – refer to management (can ask for a report back from manager)
 - Not within your jurisdiction – what is that???
 - Vague accusation (4Ws and an H)
 - Incomplete information, and can't get more
 - Can't talk to the complainant
 - What's the violation? (statute, policy, regulation)
 - Where is the lie?
 - What's the predicate? (no fishing expeditions)
 - EMERGENCY 9-1-1

8

Auditors: Start with what you know

- ▶ What could go wrong? Consult:
 - Internal controls
 - Standard agency procedures & policies
 - Supervision and oversight
 - Management ethics; “tone at the top”
 - Quality of recordkeeping
 - Professional skepticism
 - This is risk assessment – yes, in investigations!
- ▶ Audit skills useful in investigations
 - Reporting functions
 - Accounting documentation
 - Interview co-workers, i.e. witnesses
 - Technology: phone or computer logs, video
 - Court docs or official records
 - Other online resources: Prop Appr, Sunbiz

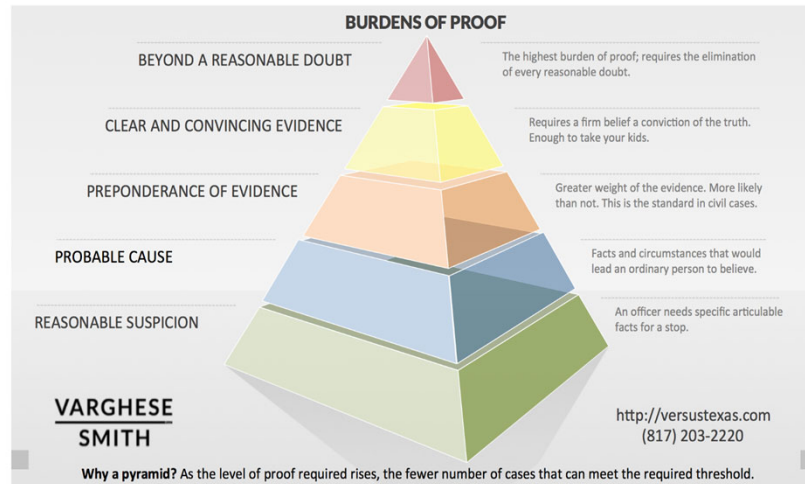
9

Differences

- ▶ Investigative planning is based on allegation
- ▶ Investigate until you’re done, then STOP
 - Preliminary inquiries
 - Can you reach a conclusion?
 - What is your standard of proof?
 - Procedure if evidence of an illegal act?
- ▶ Investigative plan must be flexible
 - Difficult to predict time needed and target dates
 - Will you pursue if new allegations arise?
- ▶ Interviewing skills are crucial
- ▶ Documenting interviews equally crucial

10

Standards of Proof



11

Standards of Proof (cont.)

- ▶ **Beyond a reasonable doubt** is the amount of evidence a prosecutor must present to a jury for a conviction at trial. Elimination of every reasonable doubt.
- ▶ **Clear and Convincing Proof** is evidence that establishes a high probability that the fact sought to be proved is true.
- ▶ **Preponderance of Evidence** is evidence that establishes the fact sought to be true is more probable than not. Greater weight of the evidence; more likely than not. This is sometimes referred to as the "51% standard".
- ▶ **Probable Cause** is sufficient reason based upon known facts to believe a crime has been committed. OR Facts/ circumstances that would lead an ordinary person to believe...
- ▶ **Reasonable Suspicion** is an objectively justifiable suspicion that is based on specific facts or circumstances and that justifies stopping or frisking a person thought to be involved in criminal activity at the time.

12

Case: Parks funds theft

- ▶ Theft suspected based on red flags from Clerk's normal internal controls
- ▶ County manager and Parks invited IG in
- ▶ Full access to records and staff for interviews
- ▶ IG doesn't conduct criminal investigations
- ▶ Approach was evasion of internal controls and improper cash handling
- ▶ Report prepared and referred to SAO
- ▶ SAO prosecution eventually led to white collar plea deal
- ▶ Could prove theft of \$50k, suspected \$100k

13

Parks: theft spreadsheet for SAO

A			B		C	C	missing #
AR Form #	C or Ch	Cashier	Amount	Type	Batch # Deposit description	Parks rcpt numbers	gun range
18046017	check	Amber Davis	\$ 57.50		25980 Summer Camp Registration	32882	
18045967	check	Amber Davis	\$ 50.00		25980 various rentals	37992	
18045751	check	Amber Davis	\$ 115.00		25980 various rentals	32885	
18045738	check	Amber Davis	\$ 4,104.00		25980 Campaign rental	11563-64, 50	
18046236	cash	Connie Benton	\$ 6.00		26081 Summer Camp shirts	34276	
18046127	cash	Connie Benton	\$ 230.00		26081 various rentals	34320-21	
18046128	check	Amber Davis	\$ 85.00		26010 various rentals	11852	
18046272	cash	Amber Davis	\$ 115.00		26047 various rentals	34277	
18046359	cash	Amber Davis	\$ 754.00	1	26047 Gun Range & Environmental fee	33675	Cathy Ferrell
18046360	cash	Amber Davis	\$ 316.50	1	26047 Gun Range & Environmental fee	33676	Cathy Ferrell
18046364	cash	Amber Davis	\$ 85.00		26047 various rentals	11853	
18046365	check	Amber Davis	\$ 85.00		26083 various rentals	11903	
18045750	cash	Amber Davis	\$ 177.00		26098 Summer Camp Registration	32886-87, 89, 34269	
18045809	cash	Amber Davis	\$ 668.00	1	26098 Gun Range & Environmental fee	33644	
18045806	cash	Amber Davis	\$ 346.00	1	26098 Gun Range & Environmental fee	33667	33668 \$ 529.00
						11335, 38, 11410, 13, 11550, 11604, 33-34, 36-37, 40-41, 47-48, 82	
18045810	cash	Amber Davis	\$ 403.00	2	26098 Entrance fees	33665	33661 \$ 626.00
18044346	cash	Amber Davis	\$ 205.00	1	26098 Gun Range & Environmental fee	33666	33663 \$ 604.00
18045827	cash	Amber Davis	\$ 834.00	1	26098 Gun Range & Environmental fee	33652	
18045366	cash	Amber Davis	\$ 319.00	1	26098 Gun Range & Environmental fee	33652	
18045984	cash	Amber Davis	\$ 150.00		26098 various rentals	38611	
18045993	cash	Amber Davis	\$ 529.50		26098 Summer Camp Registration	33801-02, 33809, 80, 34020, 34268	
Total Parks deposits to BoCC Cashier			\$644,245.25				\$52,064.50
Cash gun range deposits (1)			\$ 85,515.50				
Cash bone valley deposits (2)			\$ 17,944.00				
Other cash deposits			\$ 73,057.60				
Total cash remitted to cashier			\$176,517.10				
Total checks remitted to cashier			\$467,728.15				
			\$644,245.25				

14

Parks: Total suspected thefts

- ▶ Unable to prove all due to lack of audit trail

Department of Inspector General Summary	
Missing receipts - Parks and Recreation	
Saddle Creek Gun Range (Exhibit E)	\$ 52,064.50
Bone Valley - RecTrac receipts	\$ 27,257.00
Bone Valley - manual receipts	\$ 3,059.00
Summer Recreation receipts	\$ 3,868.00
Miscellaneous RecTrac receipts	\$ 1,969.63
Miscellaneous manual receipts	\$ 3,085.50
FY15-16 RecTrac receipts	\$ 8,956.21
Total	\$ 100,259.84

15

Parks: Red flags

- ▶ Manual receipts and associated cash not turned in to cashier
- ▶ Missing deposits were cash only
- ▶ Suspected employee signed for missing funds
- ▶ Suspicious explanations for missing receipts
- ▶ Delay in depositing funds collected
- ▶ Deposits not in numerical order
- ▶ Evidence of edited A/R prior to deposit
- ▶ Employee tried to leave deposits alone with Clerk's cashier on several occasions
- ▶ Thefts began right after a cash controls audit
- ▶ Employee resigned after reorganization and appointment of different fiscal manager

16

Parks internal control issues

- ▶ Parks funds all funneled to a single employee prior to deposit
- ▶ Reported to manager using Excel, not Oracle
- ▶ Manager did not review available G/L reports
- ▶ Manager was a “program” person, not fiscal
- ▶ Director signed “excuse notes” for missing receipts without questioning cause
- ▶ For 2 months after Hurricane Irma, no cash deposits, only checks; no one questioned
- ▶ 6-month old deposits found in storage closet after employee left

17

Parks changes in procedures

- ▶ No one at Parks left alone with cash
- ▶ Some programs now free → less cash handling
- ▶ Deposits prepared by 2 people and bagged
- ▶ Sealed bag to transport deposits to cashier
- ▶ Reorg fiscal manager exerts greater oversight
 - Confirms planned controls are still in practice
- ▶ Parks director requires full explanation for missing manual deposit slips
- ▶ Review of reasons for missing manual receipts moved from cashier to Clerk manager
- ▶ Rationale for more frequent and unpredictable cash controls audits

18

Adult Day Care revenues

- ▶ Very first complaint, 2 months as investigator
- ▶ Anonymous complaint passed through county commissioner to Clerk (elected official)
- ▶ ADC in danger of downsizing by commission
- ▶ Alleged that ADC management was double-billing to gross up revenue, prevent cuts
- ▶ ADC clients reimbursed by grants also allegedly billed as private pay
- ▶ Access to complainant was to be through the commissioner

19

ADC: problems with complaint

- ▶ Anonymous complainant, can't interview
- ▶ Not enough detail (WWWWH):
 - Who is doing the double billing?
 - Who (what client) was double-billed?
 - What specific funds were affected?
 - When? (what month, year, etc.) Ongoing? One-time?
 - Where: 3 different ADC locations
 - How do you know?
 - This sounds like an insider complaint

20

ADC: problems part 2

- ▶ Audited all 3 locations, 2 months, all clients, all methods of payment
- ▶ No double-billing found
- ▶ No guarantee we tested correct month(s)
- ▶ No ability to assess credibility of complainant
- ▶ Tied up 2 investigators for two months
- ▶ Inconclusive
 - Unsubstantiated, not unfounded

Too much work, not enough info
Result: no definitive conclusion*

*side note

21

ADC: Lessons learned

- ▶ Strongly consider whether there was sufficient information to investigate
 - Rationale is efficient use of personnel
- ▶ Push harder for access to complainant
 - Interviewing important component of investigations
 - Couldn't answer the "how do you know?"
 - (maybe he/she didn't know)**
- ▶ During interviews, push suspected complainant harder: i.e. ask more questions
- ▶ Understand your tipster's motives
- ▶ **another side note

22

HN: Social services contractor audit***

- ▶ Anonymous note sent to commissioners and county manager, too vague to work with
- ▶ Prompted IG to audit the program
- ▶ \$1 million annual contract to vendor
- ▶ Social services for rehabilitative transition from jail to the community
- ▶ 8 month audit
- ▶ Near completion, several**** whistle-blowers came forward

*** subtitle: "how NOT to run a nonprofit organization"

**** we'll talk about this later

23

Anonymous letter

Dear Sir Madam this is an important informal notice reaching out the board of the County Commission to request that the board launch some form of inquire or audit in how the IHC (contract for service) funds are been spent by [REDACTED] [REDACTED] [REDACTED]. There has been talk about disclosing information about the use of this money to the Lakeland Ledger, so please check into the matter before this happen.

It has been rumored that the [REDACTED] is using the moneys to fund all types of projects and persons are benefitting personally from the funds, it is said that there over 600K has been misappropriated since 2012. This is not to say that the men and women who are in the treatment program are not been served, but more could be done if the integrity of the contract were being maintain, thus only to be used as contracted. There need to be some form of safe-guard by the board of County Commissioners to help [REDACTED] prevent against future misappropriation of funds, this is a must because its tax payer money.

Please note that because this notice is informal it does not mean that the content is not true and that this concern is not valid. Please check into this matter ASAP.

Signed,

Concern Share Holder

24

Allegations

- ▶ Fraudulent purchases using county revenues
- ▶ Revenues not all used for program purposes
- ▶ Checks written to “cash”
- ▶ Related party transactions
- ▶ Failure to report WC injury to Exec Director
- ▶ Very little fundraising vs county funding
- ▶ Questionable uses of funds
- ▶ Holding back participants for more revenue
- ▶ Did not provide job assistance, training
- ▶ Breaches of client confidentiality

25

HN: lessons learned

- ▶ Initial complaint too vague
- ▶ Exercised right-to-audit contract provision
- ▶ HHS assigned operations to vendors
- ▶ Only financial reporting to HHS
- ▶ Risk assessment: high
- ▶ During financial audit, operational deficiencies were observed
- ▶ Whistle-blowers provided more information
- ▶ Issued audit & investigative reports same time
- ▶ Audit: better support for financial reporting
- ▶ Better review by county of financial reports

26

HN: more lessons learned

- ▶ Organizing the engagement:
 - 36 Allegations
 - 14 substantiated, 21 unsubstantiated, 1 unfounded
 - We developed a template to address multiple allegations more efficiently
- ▶ Ask “what is the violation?”
 - No violation, no complaint
 - Can report not-legally-sufficient complaints
- ▶ Don’t ignore risk assessment weaknesses
- ▶ \$1 million per year contract flew below radar
 - Find ways to identify these agreements

27

Synopsis of allegations

Allegation	Potential Violation	IG Initial Assessmt	Complaint Letter/ Ref	Action Needed	Conclusion
1.					
2.					
3.					
4.					
5.					
6.					
7.					
8.					
9.					
10.					

28

Strategies: Personnel fraud

Theft of time, personal use

- Interviews are crucial to “lock in” facts
- What evidence does victim agency already have?
- Computer logs
 - Assistance from IT in interpretation
- Phone logs
- Wi-Fi logs (if available)
- Computer software audits by IT
- GPS trackers in agency vehicles
- Surveillance
- Policy manuals and related training docs
- Security videos (if available)
- Badge swipes
- Copier logs (if printed docs logged by name)

29

Strategies: Theft of funds

- Interviews again crucial to “lock in” facts
- Evidence or red flags from victim agency
- Risk assessment
- Segregation of duties
- Management oversight
- Do walk-throughs of control functions
- Observe physical security
- Badge access to area
- Security controls
- Historical revenue/ expense reports

30

Investigations 101: Planning

- ▶ Do you have jurisdiction?
- ▶ Whistle-blower protection needed?*****
- ▶ Target date and/or time budget
- ▶ Allegations to be proven
- ▶ What's the violation?
 - Statute or regulation
 - Grant provision
 - Agency policy/ procedures
 - Contract
 - Professional standard
- ▶ Plan what is needed to prove or disprove
 - Interviews? Documents? Media?
- ▶ Staffing including supervision

31

*****Whistle-blowers

S. 112.3187–112.31895, Fla. Stat.

1. Disclosed to “agency inspector general” or “local government agency chief executive officer” or “other appropriate local official”
2. Protected against retaliation
3. Current or former employee or contractor
4. Gross waste of funds, substantial adverse economic impact –OR–
5. Violation of law with substantial danger to public health, safety, or welfare

Safeguard from retaliation by protecting confidentiality of complainant

32

Investigations 101: Fieldwork

- ▶ Record activity in an investigative log
 - This serves as your fieldwork “program”
 - Link to workpapers or documents
- ▶ Gather documentation as you go, and preferably before interview of subject
- ▶ Provide receipts to anyone supplying docs or evidence, protect chain of custody

33

Investigations 101: Interviews

- ▶ Document interviews in writing or recording
- ▶ Consider recording
- ▶ Two investigators to do most interviews
- ▶ Interviews:
 - Complainant first
 - All potential witnesses
 - Subject or respondent last
- ▶ Personnel: Garrity considerations

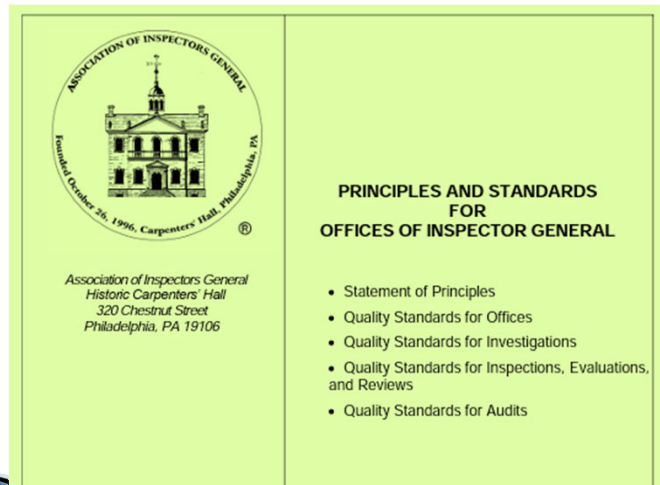
34

Reporting

- ▶ Describe your standard of proof
- ▶ Define your findings of fact
- ▶ Predicate: how did you get the complaint?
 - Protect confidentiality of complainant if needed
- ▶ Allegation
- ▶ Violation; cite specifically
- ▶ Result: your finding(s) of fact
- ▶ Publication in accord with your policy

35

Resources: AIG “Green Book” <http://inspectorsgeneral.org/>



36

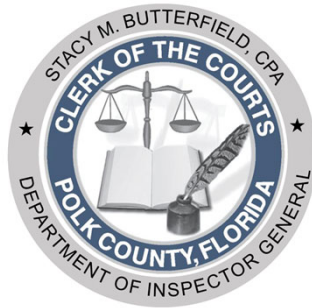
Resources: Florida IG standards manual
<https://flaccreditation.org/standards>

COMMISSION FOR FLORIDA LAW
 ENFORCEMENT ACCREDITATION, INC.



THE FLORIDA INSPECTORS GENERAL
 STANDARDS MANUAL
 EDITION 2.13

37



Lita McHugh
 (863) 534-7735
LitaMcHugh@polk-county.net

38