Session Objectives:

- identify various types of fraud
- understand what “the standards” require of you
- determine potential fraud risks for various audit topics
- develop potential steps to take within a given audit to better identify fraud
- craft targeted questions to better uncover potential fraud
About the Austin Office of the City Auditor

- City Auditor appointed by Council
- ~27 permanent staff, divided into two units:
  - Audit Services
  - City Auditor’s Integrity Unit
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• Keith Salas
  • ~5 years experience
  • CFE and CGAP
  • Economics and Public Affairs
What is fraud?

Fraud involves obtaining something of value through willful misrepresentation.
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Any illegal act characterized by deceit, concealment, or violation of trust.
City of Austin’s Definition

FRAUD includes, but is not limited to:

(a) the unauthorized use of a City resource for personal gain by deception, including by forgery or by altering a document;
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(c) the intentional improper handling of or reporting of money or a financial transaction;

(d) the intentional improper destruction or removal of records or other City resources; or

(e) the use of official City information for personal benefit.
Other Definitions of Fraud

• Federal Law
• State/Provincial Law
• Local Law
• Organization Policies
Main Categories of Fraud

- Corruption
- Asset Misappropriation
- Financial Statement Fraud
CORRUPTION

CONFLICTS OF INTEREST

BRIBERY
Is Everything Fraud?
Some Things That Aren’t Fraud

• Harassment and retaliation
• Discrimination
• Operational decisions
• Waste
• Stupidity
Before We Go On
The Key Role of Auditors

...of fraud investigations originate with internal audit activities
The Key Role of Auditors

over 15%

...of fraud investigations originate with internal audit activities
Austin’s Stats for FY2018

- Anonymous, 185
- Citizen, 28
- Contractor, 2
- Employee, 28
- Other, 36

Anonymous, 185
Auditor Responsibilities

• Assess the risk of fraud occurring
• Discuss fraud risks, including:
  • individual incentives and pressures
  • the opportunity for fraud
  • the rationalizations or attitudes that could increase the risk of fraud
• Ongoing process
Document Your Work!

FRAUD BRAINSTORMING MEETING
AUDIT NAME
DATE and TIME

**Purpose:** To identify fraud, waste, or abuse-related risks and ways to detect them and to identify any ongoing investigations that audit may interfere with.

**Sources:**
CAIU member(s):
Keith Salas, Senior Investigator

Auditor(s) Present:
Patrick Johnson, Assistant City Auditor
Tyler Myers, AIC
Sam Naik, Team Member

**Procedure:** Sent kick off meeting write up (and other selected supplemental documents) to Tope and Keith on 12/13/2018. Met with CAIU staff on 12/19/2018. Summary of discussion provided to Keith Salas in CAIU, whose comments were incorporated/who had no further comments. Final summary was documented below.
Document Your Work!

FRAUD BRAINSTORMING MEETING
AUDIT NAME
DATE and TIME

**Purpose:** To identify fraud, waste, or abuse-related risks and ways to detect them and to identify any
ongoing

**Source:**
- CAIU
- Keitel
- Audit
- Pat
- Tylee
- Sam
- **Process:**
- Keitel
- **Discussion/Results:**

*Notes – FWA is an acronym for Fraud, Waste, Abuse

The history of allegations and investigations relevant to the audit objectives:

- CAIU staff indicated that the allegation/investigation into [redacted] employee receiving gifts related to [redacted] was closed.
- Audit team indicated that we may also look at Austin Energy, Austin Water, Office of Homeland Security and Emergency Management. CAIU staff did not immediately know of any additional relevant cases. Upon further review, CAIU provided the following information:
  - AE: two allegations [redacted] neither material [redacted]; and several for [redacted] in any way and were generally misuse of City resources and secondary employment.
  - ARR: nothing for [redacted] but again, mostly HR issues. The one exception was about an employee who was alleged [redacted]
Document Your Work!

FRAUD BRAINSTORMING MEETING
AUDIT NAME
DATE and TIME

Purpose: To identify fraud, waste, or abuse-related risks and ways to detect them and to identify any

Discussion/Results:
*Notes – FWA is an acronym for Fraud, Waste, Abuse

The high level risks:

Some FWA risks related to the audit objectives identified through discussion:

- CAIU staff indicated that they had a difficult time attempting to identify FWA areas specific to
  the audit objectives. CAIU staff noted there was low fraud concern specific to

  FWA risk areas identified through discussion include:
  - Ignoring 3rd party plans (waste)
  - Small community of individuals for purchasing equipment (fraud)
    - Secondary employment concerns
  - Staff may be out in the field and lack supervision (waste, abuse)
  - Staff may take home equipment, especially if the equipment is rarely used

FWA questions identified through discussion to ask during the planning phase:

- Does the department receive any grant funding related to

  If yes, how does the department ensure that the funds are spent on grant-eligible items or activities?
Austin’s Audit Process

Planning → Fieldwork → Reporting
Austin’s Audit Planning Process

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Austin’s Audit Planning Process

Planning → Fieldwork → Reporting

Review prior allegations and investigations
Austin’s Audit Planning Process

- **Planning**
  - Review prior allegations and investigations

- **Fieldwork**
  - Auditors meet with investigators

- **Reporting**
Austin's Audit Planning Process

1. **Planning**
   - Review prior allegations and investigations

2. **Fieldwork**
   - Auditors meet with investigators

3. **Reporting**
Austin’s Audit Planning Process

Planning:
- Review prior allegations and investigations

Fieldwork:
- Auditors meet with investigators

Reporting:
- Auditors actively look for fraud
Who has a dedicated investigative team?
Planning without Investigators

• Talk with the entity responsible for investigating
• Review news articles, professional publications, and other auditors’ reports
• Reach out to other audit shops in ALGA
• Conduct brainstorming sessions
• Discuss questions to ask in interviews and potential fieldwork tests
Before our Case Study
Case study: Code Compliance

• Preliminary audit objective: evaluate the consistency of code interpretation, investigation, and resolution by Austin Code inspectors
Case study: Code Compliance

• The Austin Code Department investigates complaints about things like:
  • tall weeds and grass
  • illegal dumping
  • dangerous buildings
  • construction without a permit
Prior Code Allegations

As requested, these are the allegations/cases we have on record that relate to interpretation, investigation and resolution of Code Compliance activities.

**Case 1006:** Code investigators were accused of overreacting their authority by conducting a sweep of an entire neighborhood and issued violation citations with intimidating language. Legal stated the language was legit and the sweep was within authority.

**Case 11057:** Code Compliance was alleged to have failed to keep records of complaints filed about individual inspectors. Case was closed but it appeared that Code didn't follow normal City record retention policy.

**Case 12048:** A Code Compliance employee was alleged to have used her investigator colleagues to harass her ex-husband by having his properties and those of his friends frequently inspected and improperly cited.

**Case 14077:** A code inspector was alleged to have improperly failed compliant electrical work and to have pressured the property owner to hire his buddy to repair it.

**Alleg 368:** Code investigators were accused of inconsistent enforcement at a particular property. The informant stated that the investigators were assisting the owner with finding loopholes to explain their own lack of enforcement.

**Alleg 432:** Code management was alleged to have improperly influenced by private company, HomeAway, to delay or poorly enforce code on short term rentals.
Prior Code Allegations

Allegations About:

- Helping owners find loopholes
- Lying about conducting inspections
- Failing to investigate complaints
- Overreaching authority; “sweeping” neighborhoods
- Harassing ex-girlfriend
- Recommending friend’s company to fix issues (and making issues up to drive business)
Fieldwork

Be alert for fraud risks:
• Asked fraud questions as part of your interviews
• Conduct your planned fieldwork tests
• Advertise your fraud hotline or other means of reporting fraud
• Check in with investigators and other partners as needed
Possible Fieldwork Tests

Possible Tests

• Review similar cases for the same inspector and different inspectors to identify outlier behaviors
• Review warnings versus citations ratios across inspectors
• Check with your police department about any bribery or corruption investigations involving code inspectors
• Analyze a sample of inspectors to determine whether they inspected relatives’ properties
Are you aware of any fraud, waste, or abuse as it pertains to this audit or department?
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Auditors Actively Look for Fraud

Potential Questions:
• How do you ensure all complaints are captured?
• How do you know that an inspection is actually conducted for a complaint?
• What do you do to keep inspectors from working cases involving their family members?
• How often do you conduct inspections of a friend’s property?
• When was the last time you were instructed not to cite a particular property for a violation that you found?
General Compelling Questions

• How would someone be able to help their friends if they were in this situation?
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• Is there anyone here who has family in the industry?
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• Is there anyone here who has family in the industry?
A Gentler Question

If you had a magic wand and could change one thing about your job, what would it be?
Other Tips

- Use silence to your advantage
- Be patient
- Ask the same question in multiple ways
- Ask for support
WHAT WE FOUND

Code violation investigation, documentation, and resolution practices vary across cases, due to a lack of management oversight.

- Overall, we reviewed 306 code complaints and found issues with about 77%.
- We noted: field staff did not always issue a notice of violation even when violations are confirmed, property owners were given different deadlines for the same type of code violation, delayed initial and follow-up inspections, partial investigation of complaints, and a lack of an effective process to prioritize response to high-risk complaints to promptly address potentially dangerous cases.
- Inconsistencies may also be caused by gaps in procedural guidance provided to field staff and because Austin Code management does not conduct regular record reviews or other comprehensive monitoring of field actions.
- Consequences may include difficulty enforcing violations and safety risks to residents.
Additional Observation 1: Austin Code does not have sufficient controls to prevent field staff from investigating their own property.

Austin Code does not have a process to ensure an employee is not assigned to investigate a property that he or she owns, or a property that belongs to someone with whom the employee has a conflict of interest. When asked how the department makes sure employees do not investigate their own property, a division manager responded that they relied on the honor system. The department's current monitoring tools do not allow for the detection of conflict of interests, were they to occur, which increases the reputational risk to the City.
What do you do with novel topics?
Before We Practice
Exercise: Inventory Audit

Audit Objective: Determine whether the XYZ Department is managing their supplies inventory in an effective and efficient manner.
Part I: Planning

Step 1: Brainstorm potential fraud risks.
Part I: Planning

Step 2: Develop potential questions that you’d like to ask to help identify potential fraud.
Part II: Fieldwork

Identify several types of tests that would be helpful to determine whether fraud is occurring.
Recap

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• Tailor your fieldwork to address some of the fraud risks you identified
Recap

• Fraud is defined as obtaining something of value through misrepresentation, deceit, concealment, or violation of trust
• Auditors must consider fraud risks when planning
• It’s helpful to look at past incidents for context
• Avoid generic interview questions
• Tailor your fieldwork to address some of the fraud risks you identified
• Report or communicate your findings, as necessary
Other Resources

- ACFE Trainings
- ACFE Report to the Nations
- IIA Internal Auditing and Fraud Practice Guidance
- IIA Red Book/Yellow Book Comparison (Fraud-related Section)
- News Reports
- Other audit shops
Business Cards as Advertising

City Auditor’s Fraud Hotline

Report fraud, waste, and abuse by City employees or contractors by calling (512) 974-2798 or online at www.austintexas.gov/auditor/integrity

You can choose to remain anonymous.
Contact Info

Keith Salas
512.974.3190
keith.salas@austintexas.gov

www.austintexas.gov/page/investigative-reports