Audits & Investigations

Similarities & Differences
For Context...
The City and County of San Francisco

• City and County functions (Police, Sheriff, Fire, Airport, Hospitals)

• Mayoral/council government

• $11.05 billion budget in FY 18-19

• Approximately 35,000 budgeted FTE employees

• Approximately 49 square miles

• Approximately 871,000 residents
in·ves·ti·gate
/inˈvestəˌɡāt/
early 16th century: from Latin *investigat-* ‘traced out’, from the verb *investigare*, from in- ‘into’ + *vestigare* ‘track, trace out’.

au·dit
/ˈôdət/
late Middle English: from Latin *auditus* ‘hearing’, from *audire* ‘hear’, in medieval Latin *auditus (compo*ti)* ‘audit (of an account)’, an audit originally being presented orally.
California Government Code 53087.6 empowers a city and county auditor-controller to maintain a Whistleblower program to receive information regarding allegations of fraud, waste, or abuse by local government employees.

- Over 500 reports received in Fiscal Year 2018-19
  - Approximately 80% filed via online web form
  - Approximately 70% filed anonymously

- Closed 493 reports in Fiscal Year 2018-19
  - Approximately 80% closed within 90 days
  - Nearly half of all reports were investigated
## Audits & Investigations

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<th>Investigations</th>
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<td>Initiation</td>
<td>Work plan</td>
<td>Tips</td>
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<td>Timing</td>
<td>Scheduled</td>
<td>Reactive</td>
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<tr>
<td>Scope</td>
<td>Risk areas, compliance</td>
<td>Allegations</td>
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<tr>
<td>Objective</td>
<td>Varies</td>
<td>To determine if the alleged actions occurred, and whether they violated laws or rules</td>
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<tr>
<td>Duration</td>
<td>Set budget</td>
<td>Varies</td>
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<td>Communication</td>
<td>Entrance and exit conferences</td>
<td>Minimized contact</td>
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<td>Methodology</td>
<td>Document review, data analysis, benchmarking interviews</td>
<td>Document review, data analysis, personnel files, background checks, interviews, interrogation</td>
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<tr>
<td>Interviews</td>
<td>Fact finding</td>
<td>Fact finding, interrogation</td>
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<td>Professional Standards</td>
<td>GAGAS</td>
<td>Various</td>
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<tr>
<td>Reporting</td>
<td>Public</td>
<td>Confidential</td>
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Fraud Investigation Example
This is Randall...

“His guy is a total straight-arrow”

“He is a total stand-up guy”

“Extremely charismatic”

What a great guy

“Extremely charming”
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This is also Randall...

Former animal control officer sentenced

Nick Budnick  Monday, May 14, 2018

Randall Brown gets 18 months in prison for defrauding Multnomah County to buy gold bullion, knives and survival gear.

...is there a Randall in your organization?
Examination of Potential Employee Theft of Property – he was found guilty:

- Inappropriate: $48,833 (91%)
- Reasonable: $4,795 (9%)

Card issued: Aug 29, 2016
Card deactivated: Aug 29, 2017
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Altered Invoices

<table>
<thead>
<tr>
<th>Purchased item based on Employee’s documentation</th>
<th>Purchased item based on Vendor’s documentation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Animal catcher</td>
<td>Gold</td>
</tr>
<tr>
<td>Animal catcher</td>
<td>Gold</td>
</tr>
<tr>
<td>Field Desk</td>
<td>Gold</td>
</tr>
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Forging Approvals
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How was he caught?

• Potential fraud was identified by an employee

• Reported to the County Sheriff’s Office & District Attorney

• Department asked the Auditor’s Office to examine records to help substantiate the amount of loss
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Examination Procedures:

- Investigation team:
  - 2 CPA’s performed the work
  - 1 CFE reviewed the work
  - All team members had prior experience with fraud examinations

- Performed a fraud examination
  - Obtained 3rd party credit card records
  - Reviewed records (vouched purchases)
  - Classified the purchases
    - Reasonable
    - Questionable
    - Inappropriate
  - Performed physical inspections
  - Interviewed personnel & worked with DA and Sheriff’s Office

- Issued a Fraud Examination Report
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How was this Fraud Examination different than a Typical Audit?

• Present findings vs an opinion

• Very specific scope to support allegations

• Establish sufficient proof vs professional skepticism

• Report format: very specific and confidential

• Language used: Possible, Allegedly, Potential, Accusation
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What came of this Fraud Examination?

Former animal control officer sentenced

Nick Budnick  Monday, May 14, 2018

Randall Brown gets 18 months in prison for defrauding Multnomah County to buy gold bullion, knives and survival gear.

We got an audit out of it!
Thank you.

Any questions?

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