



Florida Inspectors General

Melinda M. Miguel
Chief Inspector General

Teaming Auditors With Investigators

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Introductory Thoughts:

Despite the best prevention and risk-management practices, misconduct and fraud incidents will continue to occur, as will practices contrary to your organization's mission. A well-planned and updated strategy can ensure your agency or organization is capable of launching an appropriate, effective, and timely response to these incidents.

How well audits and investigations are planned and conducted can greatly impact their effectiveness.

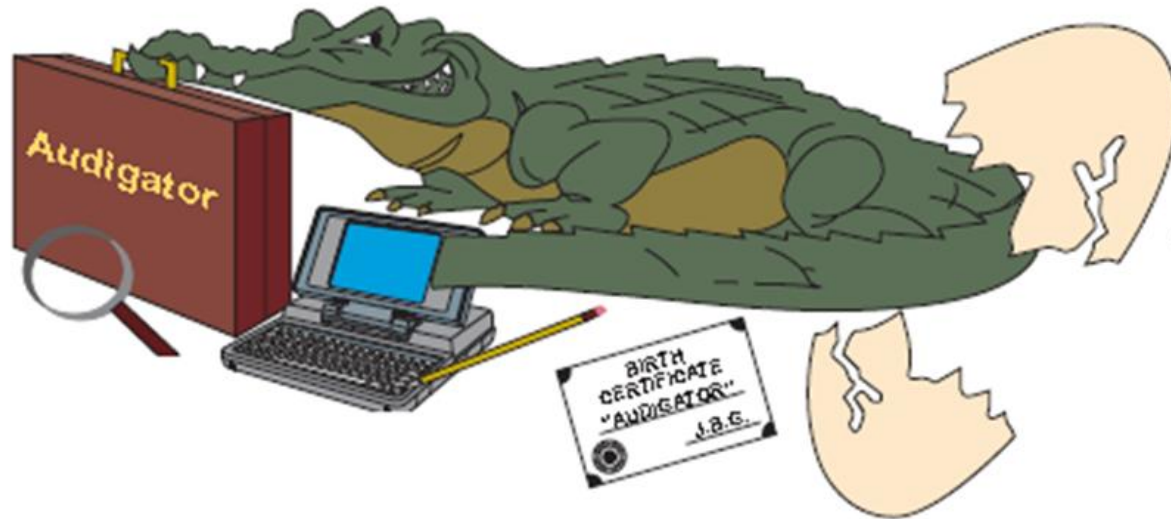
Any endeavor worth doing is worth doing right.

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Creation of the "Audigator"

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“I just read James Pollock and David Sumner's "The New Fraud Detectives" (October 2009). I firmly believe that regardless of the level of fraud-related technical knowledge internal auditors may have acquired through professional training, what matters most is their professional experience. As such, internal audit departments need to have a clear strategy as to the distinct roles investigators and auditors play in the corporate governance structure.

“Any attempts to merge investigator and internal auditor roles into an "audigator" profile would not only be very costly but also would not yield the expected results, as both professions require different skill sets and experience. A great deal of value will be added to the organization if internal auditors' capacity for fraud prevention is enhanced through continuous fraud-related professional training.”

TUNCAY EFENDIOGLU, CIA, CISA, CFSA, CCSA

Senior Auditor

World Intellectual Property Organization

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Historically, internal auditing has not played a major role in supporting investigations in many organizations. Instead, auditors were often introduced in a remediation capacity to examine the breakdown in internal controls that led to the fraud event and provide related control enhancement recommendations. Internal audit teams, however, do rely heavily on tools and techniques that are similar to forensic accounting and investigative techniques

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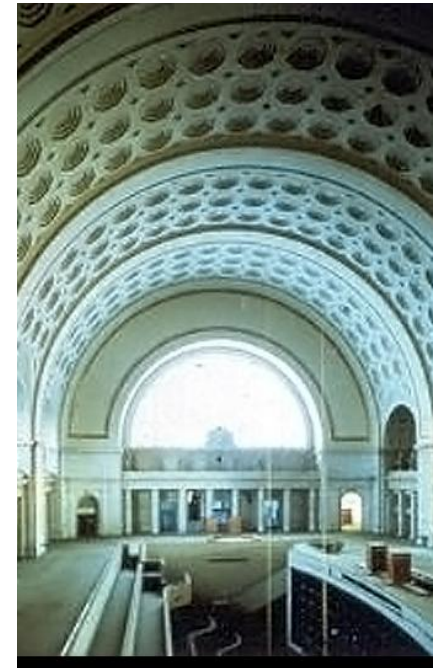


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One of the Early Documented Cases of Teaming These Resources:

- Union Station Project: 1979
 - Cost Overruns
 - Congressional Committee wanted IG Assurance that the Project was Sound
 - Task fell upon June Gibbs Brown, newly appointed IG to US DOI



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In the Words of IG June Gibbs Brown:

“I immediately called the heads of Audit and Investigation to my office to discuss their assignment. We decided to build upon the results of numerous work products already completed. I checked on the progress weekly and then daily as time wore on. Finally the Audit Chief, with considerable fanfare, presented the completed report to me. I delivered a copy to the Secretary, concerned staff, and personally delivered copies to all Committee members.”

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“I had a great sense of relief that this first highly visible project had been completed in a timely manner. The next day I was sitting in my office when the head of Investigations came to see me. He put a report on my desk and stated he had finished the investigation report on the Union Station Project.”

“How could I possibly have two reports? I had personally delivered what I thought was an OIG report to the Secretary and prominent Congressmen. How could I explain that I had a second report?”

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IG Brown asks why she had two reports. The responses were:

- The chief auditor insinuated that he could not include the work of Investigations in his audit report because investigators do not follow the Yellow Book Standards, and report hearsay and innuendo.
- The chief investigator indicated he would never consider reporting audit recommendations since they are too general and not supported with compelling evidence of wrongdoing.

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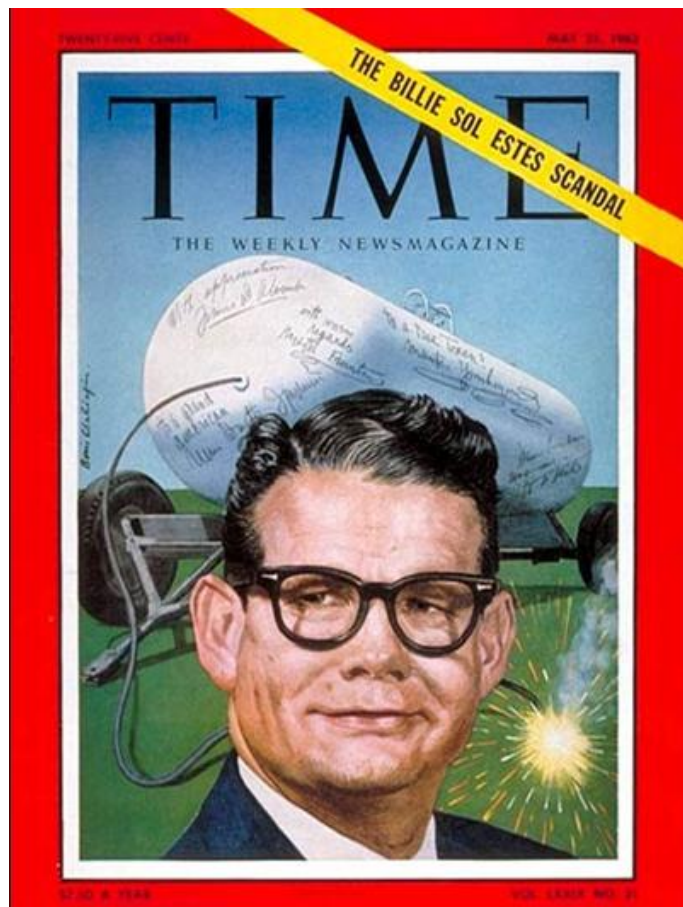
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“That was a defining moment in my fledgling IG career. It was clear to me that auditors and investigators needed to communicate. Because they had not in the past, Billie Sol Estes had been better able to conceal his fraudulent activities, and wasn’t that part of the history of why Inspectors General were established? I recognized that a new type of work product – an “investigative audit” – needed to be created for special situations. Obviously, this new type of activity required a person with expanded skills and perspective – an ‘audigator.’”

June Gibbs Brown

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To make the scheme work, Estes brought in a key partner: the U.S. government. He landed a federal contract to store grain in a loan program for farmers. Later, it was revealed just how he landed that contract: by taking three officials from the Agriculture Department on a shopping spree at the Neiman Marcus department store. With these and other bribes, Estes secured about \$7 million between 1959 and 1961. Those funds went to Commercial Solvents, which in turn provided Estes with fertilizer to sell at cut-rate prices to farmers.

Oscar Griffin Jr., 78, Pulitzer Prize Winner Who Brought Down Scheming Texas Tycoon, Dies

By DOUGLAS MARTIN
Published: December 10, 2011

[Judge Roy Bean](#), the 19th-century Texas justice of the peace and saloonkeeper, called himself “the law west of the Pecos.” Not until the 1960s was Judge Bean’s legend challenged — by Billy Sol Estes.

 [Enlarge This Image](#)




The Dallas Morning News, via Associated Press
Oscar Griffin Jr. in 1962.


Mr. Estes was a glad-handing wheeler-dealer who used cash from his \$100 million agricultural empire to practically purchase the town of Pecos, buying up businesses ranging from a tractor dealership to a funeral home.

Mr. Estes had two planes, a barbecue pit big enough for 10 sizzling steers and decidedly nonindigenous palm trees in his front yard. A monkey climbed the trees until he got mumps.


Mr. Estes was also well connected politically, boasting that the president of the United States took his calls. On his wall at the time were autographed pictures of President John F. Kennedy and a longtime friend, Vice President [Lyndon B. Johnson](#).

In [Pecos](#), population 12,728 then, Mr. Estes essentially ruled — until a 29-year-old journalist named Oscar Griffin Jr. toppled him.

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DEFENSE PROCUREMENT FRAUD LAW ENFORCEMENT

TESTIMONY OF JOSEPH SHERICK, INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

HEARING
BEFORE THE
SUBCOMMITTEE ON
ADMINISTRATIVE PRACTICE AND PROCEDURE
OF THE
COMMITTEE ON THE JUDICIARY
UNITED STATES SENATE
NINETY-NINTH CONGRESS
FIRST SESSION
ON
HOW TO DETER FUTURE FRAUD AND CORRUPTION IN NATIONAL
DEFENSE PROCUREMENT

OCTOBER 1, 1985

Serial No. J-99-56

Printed for the use of the Committee on the Judiciary

Senator METZENBAUM. OK.
Mr. SHERICK. One of the first things we did was we went out and looked at, one, the auditors access to records and, two, referral of fraud because I understood that this was an area that was very, very important to the whole process.

The first thing we found was that in many cases they did not even have access to the records. The contractors were telling them, take a walk, and they were taking a walk. So we criticized them for that and told them to get with it, and get access to the records.

The second thing that we criticized them for was referrals. The number of referrals was absolutely minimal. They didn't want to get involved. They did not consider themselves investigators. They did not want to be "audigators," and they felt that by referring suspected fraud to the Department of Justice and to the criminal investigators, it injured their relationship with the contractors. We said, "We do not care about your relationship with the contractors. You are auditors, who work for the Department of Defense and the U.S. Government, and if fraud exists we want referrals." We energized referrals.

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Traditional Audits

- An entrance conference is held with the auditee and a draft report is issued to solicit the auditee's comments.
- Auditors collaborate with managers to resolve findings.
- The existence and degree of intent is usually not determined.
- It has a lower potential "sentinel" effect.
- Usually performed by a group of auditors.

Investigative Audits

- Often, there is minimal contact with the subject entity at onset.
- Final determination/conclusion developed without unit manager collaboration.
- The intent to defraud is a key element that must be established.
- It has a higher potential "sentinel" effect.
- Performed by a multi-disciplinary team (e.g. auditors, medical review specialists, investigators)

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Comparing Investigative Approaches

Objectives, approaches, and techniques used in both traditional internal audits and forensic investigations are grounded in common fundamentals. These similarities, however, can vary significantly in application.

	Internal Auditing	Forensic Investigation
Objective	Ensures policies are being followed and identifies areas for operational improvement.	Gathers documentation to prove or disprove a fraud allegation.
Timing	Scheduled in advance.	Reacts to an allegation or suspicion.
Work plan	Defined work plan.	Work plan can change dramatically over time.
Documentation used	Company documentation.	Company and personal documentation, including e-mail reviews and background checks.
Fraud schemes	Considered during planning.	Detection and quantification of the alleged schemes.
Interview style	Fact finding.	Fact finding and interrogation.
Intent determination	Generally not considered.	Integral part of investigation.
Sampling	Frequently used.	Rarely used.

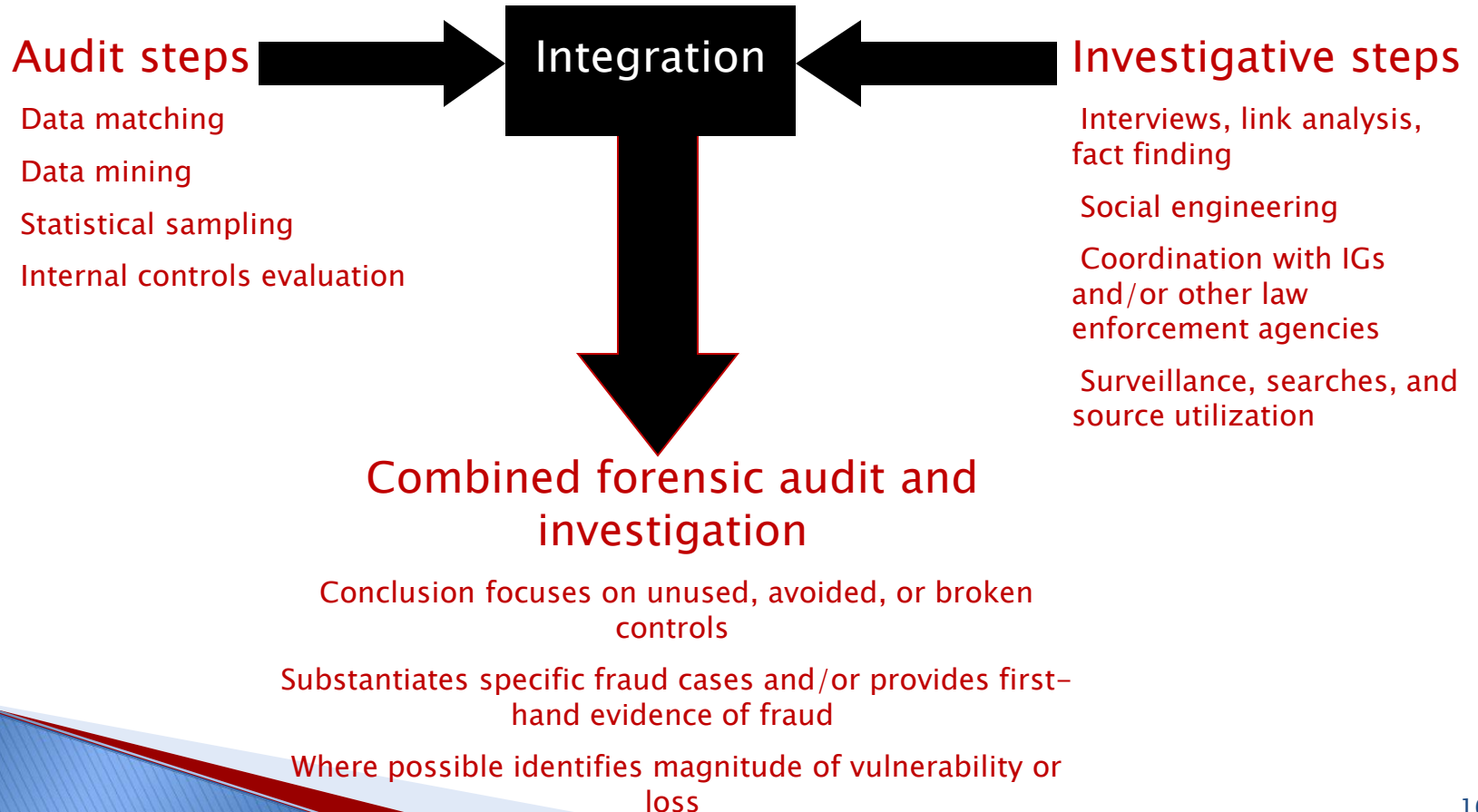
Source: the New Fraud Detectives, Internal Auditor, October 2009, Pollock, James M. & Sumner, David W.

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How To Do It Integrated Methodology





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Analytical Work to Support the Project

Look for past evidence of :

- Signs, signals, and patterns indicating the potential for fraud
- Unexplained decisions and late transactions, or both
- Weak management
- Failure to follow legal or technical advice
- Unethical leadership (many complaints or grievances)
- Weak internal controls
- Missing or altered documents
- History of impropriety

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Why Teaming of the Resources Works

- Narrowly scoped or staffed investigations and reviews may not provide sufficient facts and details that substantiate fraud or identify vulnerabilities.
- Many complaints, like Whistle-Blower complaints, are thrust upon us with little planning time but considerable expectations (that we'll uncover the truth). A broader skill set increases the likelihood of success.
- Antifraud work that leverages both forensic audit and investigative approaches delivers a powerful message about attention to broken controls.



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GAO's Forensic Audits and Special Investigations (FSI) team integrated antifraud and investigative activities

- Teamed auditors and analysts with criminal investigators
- Based fraud focus primarily on data-driven analysis
- Heightened ability to deliver high-impact testimonies and reports

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- Somebody has to be in charge
- Only one final report needs to be generated
- Include both inculpatory and exculpatory information
- Don't overlook the rights of "individuals substantially affected" and Whistle-Blower complainants.
- Collaborate and corroborate, do not contradict

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“Only the mediocre are always at their best.”

Jean Giraudoux (1882-1944)

French diplomat, dramatist and novelist

Wrote “The Madwoman of Chaillot” 1943

First produced in Paris in 1945

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