

Developing Forensic Investigative Capacity for Audit Agencies



Who Do You Think You Are?

Perceptions in Popular Culture

- Doctors
- Lawyers
- Police
- Auditors and Analysts

Course Objectives:

- This course will teach organization leaders how to identify, train, and utilize investigators employed with audit organizations. This includes an analysis of the organizations mission, function, and legal authority.

Fraud Facts

- Fraud is program specific – contracts, grants, subsistence programs, etc.
- Identification, detection, and mitigation tools and techniques are based on the types of goods and services being procured and/or distributed
- All fraud has a common base and/or features – trickery, deception, intent to permanently deprive
- Commission of the offense is dependent on relevant statutes, program regulations, and policy / procedural requirements

Discussion Points - Forensic Team Development

- Mission
- Legal Authority
- Organization Structure / Responsibilities / Functions
- Standards of Evidence
- Personnel Selection
- Employing Investigative Methodologies within Audit Scope
- Standards of Evidence
- Review of Case Studies

Mission Development

- What is the agency / organization's current mission statement?
- What type of products are currently produced - audits, evaluation, and inspections?
- Does the agency / organization focus on fraud, waste, abuse, and mismanagement
- What will be the focus of the forensic investigative team?
- Does the agency / organization want to merely report, or to also investigate, conduct controls testing, and expose vulnerabilities?

Mission Statement – Forensic Team (Example)

- FAIS's mission is to improve the performance and ensure the accountability of government by conducting forensic audits and oversight investigations concerning allegations of fraud, waste, abuse, or serious wrongdoing that may involve potential violations of criminal law.

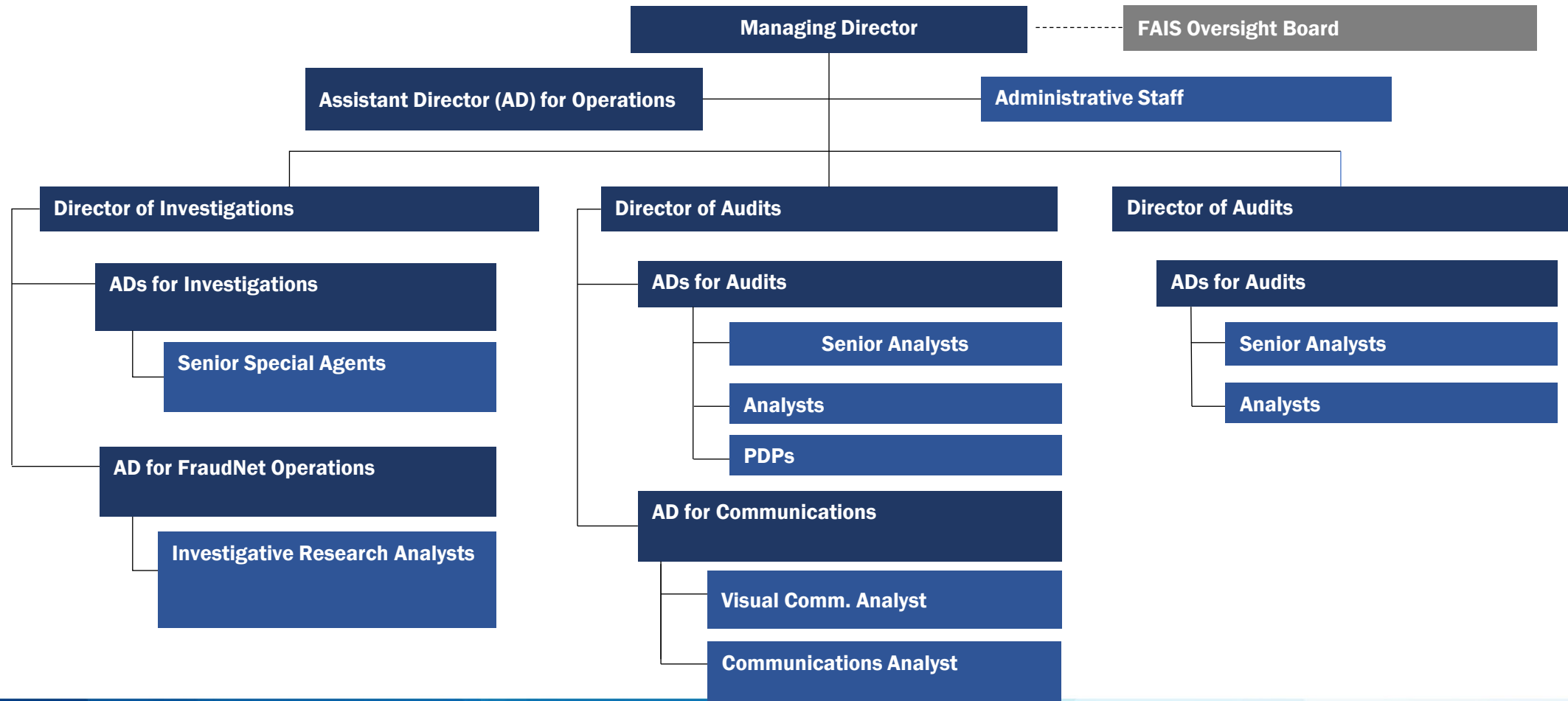
Enabling Legal Authority

- What is your agencies / organizations legal authority?
- Does it authorize the detection, analysis, and mitigation of fraud, waste, abuse, and mismanagement?
- Does your agencies authority authorize the conduct of investigations, controls testing, and vulnerability assessments?
- Does yours agencies / organization have the authority to use covert investigative tools and techniques?

Enabling Legal Authority – Forensic Team

- [31 U.S.C. § 712](#)
- The Comptroller General shall—
 - (1) **investigate** all matters related to the receipt, disbursement, and use of public money;
 - (4) make an investigation and report ordered by either House of Congress or a committee of Congress having jurisdiction over revenue, appropriations, or expenditures

Forensic Team - Example



Forensic Team - Composition

- Investigative Staff – 1/3 of Total Complement
- Audit / Analyst – 2/3 of Total Complement
- Management – Co-Equal and Separate Directors for Each Component
- Managing Director

Investigative Functions – Vulnerability Assessments

- A covert or overt assessment of known and unknown security issues within government systems, structures, and facilities to prevent, detect, and deter intrusions. A vulnerability assessment can identify the potential effectiveness of proposed countermeasures.

Forensic Team – Audit Responsibilities

- Conduct audits, evaluations, and inspections with a focus on fraud, waste, abuse, and mismanagement
- Conduct audits, evaluation, and inspections to established standards – Yellow Book, Green Book, GAGAS, Federal Fraud Framework
- Identification of fraud indicators via data matching, data mining, and the identification of systems for controls testing and vulnerability assessments

Forensic Team – Investigative Responsibilities

- Identifying, analyzing, and mitigating individual and systemic allegations of criminal misconduct and /or other serious wrongdoing identified during the course of audit, evaluations, and inspections
- Conducting investigations, controls testing, and vulnerability assessments to established standards
- Refer evidence of criminal misconduct or other serious wrongdoing to the prevailing authority – ex. Department of Justice, Offices of Inspector General, investigative agencies, or agency management

Forensic Team – Investigative Responsibilities

- Conduct proactive operations that tests of fraud prevention controls, and to determine the security of agency funds, facilities, programs, and systems to vulnerabilities
- Hotline Function - Assessing and Investigating
 - Processing allegations of fraud, waste, mismanagement, and misconduct for use in audits, independent investigations, or for referral to external government officials for actions as deemed appropriate

Investigative Functions - Investigations

- Any proactive or reactive inquiry conducted into allegations of suspected criminal offenses or serious wrongdoing, including allegations of fraud, waste, abuse, or mismanagement within a federally funded program, system, or facility.

Investigative Functions – Controls Testing

- The employment of covert investigative techniques, tools, and methodologies to test the activities within known or defined control structures of a government program, system, or facility to determine their relative efficiency and effectiveness in preventing, detecting, and deterring fraud, waste, abuse, and mismanagement.

Selection - Investigative Personnel

Personnel

- Cops
 - Local Police / General Crimes
- Investigators
 - White Collar Crime
- Federal Agents
 - Office of Inspector General

Investigative Mission

- Support Audits
- Collaborate on Potential Fraudulent activity
- Establish Intent
- Collect Evidence to Standards
- Interface with Law Enforcement

Employing Investigative Tools and Techniques – Work Product

- Selection Criteria for Case Studies – Location and size of population, relevance, type of investigative approach
- Illustrative Examples – Identifying specific instances of misconduct and / or serious wrongdoing that illuminate findings and recommendations based on sufficient and appropriate evidence
- Generalizable Examples – Projecting the likelihood of misconduct and / or serious wrongdoing across funds, facilities, programs, and systems based on sufficient and appropriate evidence

Employing Investigative Tools and Techniques – Investigative Technique

- **The manner in which the investigator employs their technical skills to effect a desired result**
- Investigative and field operations planning, consensual monitoring, video surveillance, searches of the web, dark web, and law enforcement databases, creation of “backstopped” undercover identities or businesses, covert purchases, investigative writing (e.g., Reports of Activity, Memoranda of Investigations), chain of custody tracking, document and records review, evidence collection and storage consistent with Federal Rules of Evidence, information sharing with law enforcement, referrals to law enforcement.

Employing Investigative Tools and Techniques – Investigative Tool

- **Mechanical or other device used to support an investigative activity**
- Interviews, body wires, video cameras, digital recording devices, transcripts, confidential informants, virtual phone numbers, covert physical addresses and credit cards, counterfeit documents, undercover vehicle registration and rentals.

Employing Investigative Tools and Techniques – Investigative Methodologies

- **Investigative Methodologies – recognized processes for conducting investigative functions according to a definite, established, logical or systematic plan**
- Different investigative methodologies depending on the investigative function and objectives.

Employing Investigations within Audit Scope and Methodologies

1. Primary nature and complexity of the allegations (criminal, civil, and/or administrative);
2. Planned focus and investigative objectives;
3. Possible legal, regulatory, or best practice violation(s) and the corresponding elements of proof or standards;
4. Coordination with appropriate authorities, if warranted, e.g., another OIG or the Federal Bureau of Investigation;
5. Applicable judicial venue and coordination with prosecutors, when appropriate;
6. Steps and investigative techniques necessary to meet the investigative objectives; and
7. Resources necessary to meet the investigative objectives.

Employing Investigations within Audit Scope and Methodologies

Proposed Deliverables

- Investigative Findings and Reports - (i.e., Report of Activity [ROA], Report of Interview [ROI], and Memorandum of Investigation [MOI])
- Evidence - Audio and Video Files, Transcripts, Purchased Goods, etc.

Risks to Agents, Risk Mitigation Plans, and Required Resources

- Risk to agency liability and reputation
- Plans to eliminate or mitigate risks to agent safety
- Coordination with other investigative and law-enforcement agencies, if applicable

Employing Investigations within Audit Scope and Methodologies

"We conducted the performance audit portion of our work from Month Year to Month Year in accordance with generally accepted government auditing standards. Those standards require... We conducted our related investigative work in accordance with investigation standards prescribed by the Council of the Inspectors General on Integrity and Efficiency."

Investigations

- Any proactive or reactive inquiry conducted by FAIS special agents into allegations of suspected criminal offenses or serious wrongdoing, including allegations of fraud, waste, abuse, or mismanagement within a federally funded program, system, or facility.



United States Government Accountability Office

Report to Congressional Requesters

May 2019

SCHOOL MEALS PROGRAMS

USDA Has Reported
Taking Some Steps to
Reduce Improper
Payments but Should



Controls Testing

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United States Government Accountability Office

Testimony
Before the Committee on Finance,
U.S. Senate

For Release on Delivery
Expected at 10:00 a.m. EDT
Tuesday, April 8, 2014

PAID TAX RETURN PREPARERS

In a Limited Study,
Preparers Made
Significant Errors

Statement of James R. McTigue, Jr., Director
Strategic Issues



Vulnerability Assessments

- A covert or overt assessment of known and unknown security issues within government systems, structures, and facilities to prevent, detect, and deter intrusions. A vulnerability assessment can identify the potential effectiveness of proposed countermeasures.



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Report to Congressional Requesters

October 2017

PHYSICAL SECURITY

NIST and Commerce Need to Complete Efforts to Address Persistent Challenges



Forensic Investigative Approaches to Auditing

Potential Benefits

- Matrixing across disciplines
- Proactive identification of fraud, control lapses, vulnerabilities
- Powerful findings and recommendation
- Broadening of functions
- More interesting reports

Potential Pitfalls

- Misapplication of standards
- Misuse of examples
- Mission creep
- Silo of functions

Fake invoices and gambling debts: How a county bureaucrat stole \$6.7 million

Peter Bang

- Chief Operating Officer
- County Department of Economic Development
- Rockville, Maryland
- \$6.7 million in fraud
- Over the course of 5 years



Questions:

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