



State Auditor
Hector Balderas

Office of
the State Auditor



Fraud Director
Chuck Montano

Charles "Chuck" Montano

Welcome

Intergovernmental Audit Forum 2008 Conference

**Challenges of Reporting and Investigating
Financial Fraud, Waste and Abuse Of
Public Resources**



Presented by

- The New Mexico Office of the State Auditor
Hector H. Balderas, State Auditor
- Charles M. Montaña, Director of Fraud &
Special Audits

<http://www.saonm.org/>.



Mission Statement

The Office State Auditor will utilize its statutory authority to achieve fiscal accountability in the utilization of public resources provided by the State of New Mexico and it citizens.



Diverse Pool of Professionals

OSA Staffing

- Certified Auditors (CPAs, CFEs, CIAs)
- Investigators
- Attorneys



Drivers Behind Current Emphasis

- Recent Scandals (Public & Private)
- Expectations/Demands of Investors and the General Public
- Ethics Reform/Whistleblower Protection Movements



Compliance versus Fiduciary Duty

- Duty to ensure public resources expended in the public good and for the public benefit
- Duty to ensure costs incurred are necessary, reasonable and allowable



Professional Standards

- American Institute of CPAs
- Institute of Internal Auditors
- Institute of Management Accountants
- Association of Fraud Examiners



Individual Roles & Responsibilities

- **Citizens**
- **Employees**
- **Employers**



Who Investigates What (Agency Roles)

- The Agency's Internal Audit/Inspector General
- Local Law Enforcement (police & DAs)
- State Attorney General vs. State Auditor
- State Involvement vs. Federal Involvement



Typical Issues Reported

- Harassment/Discrimination/Nepotism (personnel/HR)
- Workplace Violence (law enforcement)
- Violations of Open Meetings Act (State AG)
- Consumer Fraud/Waste/Abuse (State AG)
- Public Information Requests (agency/AG)
- Burglary/Theft by Non Employee (law enforcement)
- Burglary/Theft by Employee (fraud/waste/abuse)
- Conflicts of Interest (fraud/waste/abuse)
- Contracting Misconduct (fraud/waste/abuse)
- Favoritism/Non Compliance (fraud/waste/abuse)
- Embezzlement (fraud/waste/abuse)
- Accounting/Reporting Fraud (fraud/waste/abuse)



Basic Challenges

- Whistleblower Protection (Reality vs. Fiction)
- Reporting (Awareness, Access, Identity)
- Human Resources (Quantity & Quality)
- Auditing vs. Investigations vs. Examination
- Timeliness of Response to Reported Issues/Concerns
- Investigative Pitfalls (Fact-Finding Challenges)
- Collaboration with Other Agencies
- Official Resistance To Bad News
- Hot Lines and Case Management
- Prioritizing (Risk Ranking & Resource Allocation)
- Recognizing & Detecting Fraud



Hotlines & Case Management

- Why Reinvent the Wheel?
- Anonymous Reporting (or not)
- System Flexibility
- 24-hour, seven days a week




Prioritizing

- Using Risk Factors
- Objective vs. Subjective
- Being Flexible




Section 2 of the Risk Ranking Module

Risk Calculation w 5 Risk Factors												
Financial Impact and/or Potential Loss	1=Low 5= High					Total	Risk Level	OSA Timeline		Other Entity		
	Degree of Mismanagement & Related Statutory Concerns	Timeliness Concern	Public, Media and/or Reputation Exposure	Oversight Deterrent	Date Reported to OSA			Days Lapsed	Date Other Entity Engaged	Days Lapsed	Referral Flag	Entity Code
								26	Mandatory	1-Feb-07	370	4-May-07
1	1	2	5	5	26	Mandatory	7-Jun-07	244	4-May-07	-33	y	b
1	3	5	5	5	26	Mandatory	8-Feb-07	363	4-May-07	86	y	c
2	5	4	3	1	26	Mandatory	10-Sep-07	151			y	d
5	5	5	4	5	24	High	9-Sep-07	152	2-Feb-04	-1297		a
4	2	2	4	2	1	Low /Agency	4-Feb-07	367	7-Jun-07	123	y	



Section 3 of the Risk Ranking Module

Risk Factors		
Financial Impact/Potential Loss		Risk Level
\$250 or less	petty misdemeanor	1
> \$250 but less than \$500	misdemeanor	2
> \$500 but less than \$2,500	4th degree felony	3
> \$2,500 but less than \$20,000	3rd degree felony	4
over \$20,000	2nd degree felony	5
Degree of Mismanagement & Related Statutory Concern		Risk Level
petty misdemeanor	favoritism/nepotism	1 to 2
misdemeanor	ineffective use of resource/waste	3
potential felony	self serving/personal gain/fraud	4 to 5
Timeliness Concern		Risk Level
intimidation of witness or destruction of evidence unlikely		1 to 2
intimidation of witnesses or destruction of evidence possible		3
intimidation of witnesses or destruction of evidence likely		4 to 5
Public/Media/Reputation Exposure		Risk Level
line personnel involved & agency may have taken proper action		1 to 2
line personnel involved & agency may have NOT taken proper action		3
high level officials involved & agency may have NOT taken proper action		4 to 5
Oversight Deterrent		Risk Level
independent audit/oversight exists & few reported issues		1 to 2
no independent audit/oversight exists & few reported issues		3



Section 4 of the Risk Ranking Module

Code Legend		
Risk Ranking		
Mandatory	1	Greater than 25
High	2	Greater than 20 but < 25
Medium	3	Greater than 15 but < 20
Low	4	Greater than 1 but less than 14
Not Ranked/Closed	5	Less than 1
Priority		
ORANGE		Mandatory
GREEN		High
Yellow		Medium
		Low
BLUE		Not Ranked/Closed Case
Risk Ranking Override Flags		
1	State Auditor Priority	Mandatory
2	Political Interference A Key Concern	High
3	Prosecuting Authority Non Responsive	High
4	Highly Compromised Control Environment	High
5	Already Under Investigation (no need to rank)	Low
6	Not Ranked/Closed Case	Closed
Other Entity Involvement (Referral) Flags		
a	Local Law Enforcement (Police/Sheriff)	Referral Flag
b	NM District Attorney	y
c	NM Attorney General (AG)	
d	Agency Internal Audit/Office of Inspector Gen.	
e	Federal Bureau of Investigation/US AG	
Note: When another entity is involved in the investigation the referral flag must be set to "y" (yes) and the Risk Ranking Override Flag set to "6".		
Error Message		
Date other entity engaged has date/Referral flag blank:		"Referral flag required"
Referral flag set/Referral date blank:		"Referral date required"
Referral flag set/Entity code blank:		"Entity code required"



THE END

Thank You!
Any Questions?

