



Special Investigations

Division: Trends and Risks

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Agenda

- **Risk Advisories**
- **Trends**
- **Impact of Fraud, Waste and Abuse**
- **Recognizing and Preventing Fraud**
- **Questions?**

Trends

Issues identified may vary due to:

- Entity Type (State Agency, County, School, etc.)
 - Different rules apply; missions and programs vary
- Entity Size (Small, Large, Rural, Urban)
 - Unique challenges (timely deposits, conflicts, number of transactions, etc.)
- Available Resources
 - Staffing, segregation of duties; available \$ for training, accounting software, etc.
- Commitment to Compliance
 - “Top Down” and “Bottom Up”
- Reporting
 - Entity/IPA notifications; oversight agencies; whistleblowers; stakeholders, etc.
- Auditor
 - Professional judgement influences testing areas

Trends

FY15 audit and SID case trends include:

- **Lack of internal controls over utility billing and payment processes (overrides, wrong rates, not collecting what's due, etc.)**
- **Lack of segregation of duties resulting in overrides (payroll, checks, receivables, etc.)**
- **Travel and Per Diem (abuses)**
- **Inventory not verified (loss and thefts)**
- **Procurement (conflicts, no bids/RFPs, etc.)**
- **Time theft (showing up late or not at all)**
- **Nepotism (hiring/promotions/raises)**

Trends (Cont.)

- **Credit card purchases for personal expenses (lack of supporting documentation for transactions)**
- **Failure to conduct background checks or maintain check and licensure information in HR files**
- **Misuse of student activity funds (theft, used for another purpose, no proper accounting)**
- **Cash handling / reconciliation (theft, lack of proper accounting procedures)**
- **Universities and non-profits (foundations)**

Risk Advisories

- **School Personnel Act (November 2015)**
 - Act requires school professionals to maintain appropriate licensure and undergo background check
 - Failure to comply may result in risks to students and school personnel as well as possible misuse of public funds
 - Examples:
 - APS (Background check not performed before hiring)
 - Espanola (Results of check not fully considered)
 - Mora (Forged documents)
 - Schools throughout the state (lacking documentation in HR File)

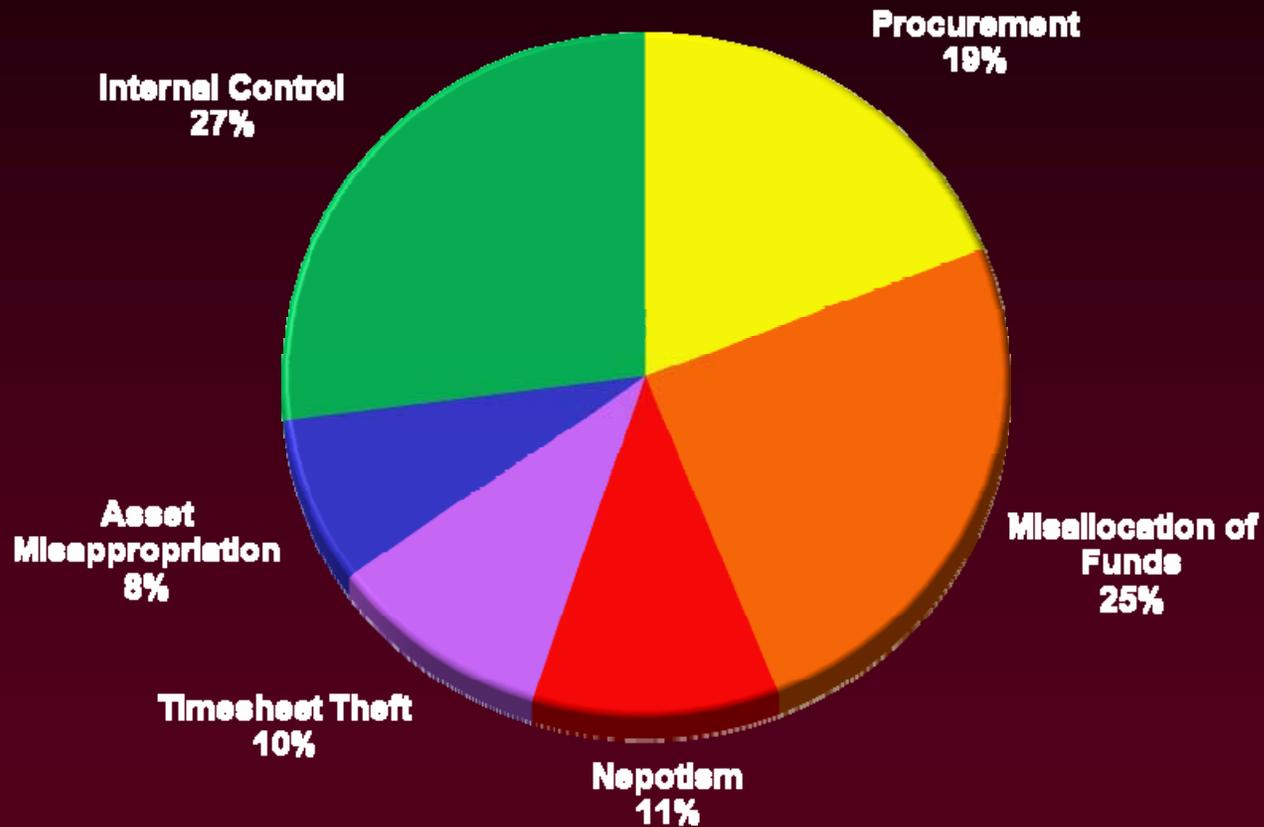
Risk Advisories (Cont.)

Upcoming advisories may include:

- **Utilities**
- **Student Activity Funds**
- **Cash Reconciliation**
- **Conflicts of Interest**
- **Others?**

Breakdown of OSA Complaints

CASES



Effects of Fraud, Waste and Abuse

Fraud, waste and abuse of public funds cause damage to your agency:

- Poor reputation**
- Loss of public confidence**
- Adversely affects status with creditors grantors, legislators, and oversight agencies**
- Reduces public votes for a bond issuance**
- Adversely affects staff morale**
- Distracts an agency from its mission**

Recognizing Fraud



(Capability = Fraud Diamond)

Recognizing Fraud

According to the Association of Certified Fraud Examiners (ACFE):

- 17% of fraud is perpetrated by accounting employees**
- More than 40% of fraud is discovered through tips; more than twice the percentage of any other means**
- 42% of fraud was committed by employees during their first 5 years of employment**

Recognizing Fraud

- **45% of frauds are committed by individuals who appear to be living beyond their means**
- **49% of the fraudsters were over 40 years old**
- **68% of frauds are committed by men median losses associated with men are twice as high as women**
- **More than 80% of perpetrators had never been charged or convicted or punished or terminated**

Prevention of Fraud

- **Establish or use fraud hotlines. (*OSA Fraud Hotline*)**
- **Implement whistleblower policies and mechanisms to help protect employees.**
- **Perform internal audits and test high risk areas/issues.**
- **Monitor compliance with the annual audit requirement.**