

**BEST PRACTICES: FOLLOW THE LEADER
DEALING WITH DIFFICULT EXAM SITUATIONS:
HOSTILE & UNCOOPERATIVE INDIVIDUALS, DUBIOUS FIRMS**

Fraud examiners often find themselves in difficult circumstances; it is the nature of the business. This highly interactive session will cover how to handle hostile or rude interviewees, dubious and unsavory people and companies, and common stall tactics. This will also cover more unusual situations, such as hearing an auditee brag about wrongdoing and sobbing subjects.

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Ed Stolle recently joined the Federal Housing Finance Administration to work as a senior analyst for the division of banking regulation's exam quality assurance unit. Previously, Ed was a branch chief for the Securities and Exchange Commission's Examination Program for over 10 years. During that time, Ed received the SEC's "Examination Award of Excellence" for his work on exams, and was also nominated twice for the SEC's "Productivity Improvement Award" for his effective leadership of the SEC's examiner training and learning development program. Prior to joining the SEC, Ed was employed in the audit divisions of both Ernst & Young and the Small Business Administration's Office of Inspector General, and he received the SBA's Inspector General "Auditor of the Year Award" for his novel work in detecting fraud on audits and investigations. Ed is an accomplished speaker, giving presentations to many organizations, including banking, securities, and insurance regulators; inspector general offices; foreign financial regulators; district attorney groups; and law enforcement organizations.

Ed graduated from the University of Maryland, College Park, MD, magna cum laude, with a B.S. in accounting. He is a Certified Public Accountant (CPA), and received the Elijah Watt Cells Award for having one of the top 100 scores worldwide on the May 1990 CPA examination, out of 70,000 candidates. He is also a Certified Fraud Examiner (CFE), Certified Financial Crimes Investigator (CFCI), and a Certified Government Financial Manager (CGFM).

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Dealing With Difficult Situations on Audits and Exams

Hostile & Shady Situations, Lack of Cooperation, Peculiar Occurrences, and Dangerous Situations



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What Are the Course Topics?

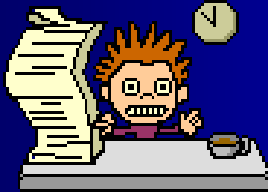
- **Hostile Situations**
 - Hostile Auditees, Third Parties, & Depositions
 - Case #1: Belligerent Director
 - Auditor Techniques
 - Class Video Exercise #1: Antagonistic Co-Regulator at Exit Conference
 - Class Video Exercise #2: Hostile Lawyers & Clients at Deposition
- **Shady Situations**
 - Case #2: Auditee Altering Documents & Taking Auditor Documents
 - Unethical, Snooping, & Untruthful Auditees
 - Auditor Techniques
 - Class Video Exercise #3: CEO Secretly Rifling Through Auditor's Briefcase & Documents
- **Lack of Cooperation**
 - Possible Stalling Techniques by Auditees
 - Auditor Techniques
 - Class Exercise #4: Auditee Demands Counsel Present at Every Discussion/Request
 - Class Exercise #5: Auditee Will Provide Records, But Refuses to Speak with Auditors
 - Inadequate Office Space for Auditors
- **Peculiar Occurrences**
 - Case #3: Crying Person, Asked by Auditee to Hold Hands & Pray, No Heat, Etc.
 - Auditor Techniques
- **Dangerous Situations**
- **Open Discussion – Audience Experiences**

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Hostile Situations: Hostile Auditees

CASE #1: BELLIGERENT DIRECTOR



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Hostile Situations: Auditor Techniques

Auditor Techniques:

- Maintain your composure
- Try to determine if their aggression is being used to hide something they do not want you to know



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Hostile Situations: Auditor Techniques

Auditor Techniques:

- Control your feelings
- Listen, don't react
- Set some limits
- Terminate if you feel in danger



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Hostile Situations: Auditor Techniques

Auditor Techniques:

- Understand up front which issues are "hot buttons" for the auditee and which ones they will likely disagree with.
- If the auditee chooses to argue and get hostile, diffuse the situation by saying that we will have to "agree to disagree" and advise them that they can formally respond in writing.
- If the auditee yells and berates you, you do not have to accept that. You can immediately stop the meeting and advise them calmly that you can reconvene later.
- Contact your management when situations escalate.

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Hostile Situations: Hostile Third Parties

Class Video Exercise #1: Antagonistic Co-Regulator at Exit Conference

- Did the Lead Auditor Handle the Situation Appropriately? What Did She Do Well? What Could She Have Done Better?

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Hostile Situations: Hostile Third Parties

Class Video Exercise #1: Antagonistic Co-Regulator at Exit Conference

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Hostile Situations: Hostile Deposition

Class Video Exercise #2: Hostile Lawyers and Clients

- Did the Investigators Handle the Situation Appropriately? What Did They Do Well? What Could They Have Done Better?

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Hostile Situations: Hostile Deposition

Class Video Exercise #2: Hostile Lawyers and Clients

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Shady Situations: Unethical Auditees

CASE #2: Auditee Altering Records and Taking Auditor Documents

- An auditor asked to interview a stock broker at a branch office, but the stock broker left immediately before an interview. The stock broker later said that his management told him to go home and not talk to the auditor.
- The auditors conducted reviews at the main office and then went to a branch office. The records at the branch office differed significantly from the ones reviewed at the main office. The documents were altered by branch personnel, presumably when they found out the auditors were coming.



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Shady Situations: Unethical Auditees

CASE #2: Auditee Altering Records and Taking Auditor Documents

- Auditors noticed that someone had gone through the file cabinet drawers in the locked room at the branch office, and that some of their documents, including originals, were missing. The documents "mysteriously" returned one morning, but it was never discovered who took them.
- An auditor boxed up audit documents at the auditee and left the box in the mail room for taping and FedEx pick-up. When the auditor received the box back at the office, some of the documents pertaining to an exception were missing.

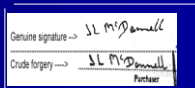
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Shady Firms: Auditor Techniques

Auditor Techniques:

- Situations Involving Altered Auditee Records or Missing Audit Documents
 - Document altered records and note missing documents
 - Request an explanation for the differences
 - Ask them to help you reconcile any conflicting documents or locate any missing documents
 - Take extra precaution with documents and laptops
 - Do not leave documents onsite
 - At the end of fieldwork, do not ship back documents from the auditee



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Shady Firms: Auditor Techniques

Auditor Techniques:

- Before an audit, consider conducting a search of the criminal history of key players at the auditee as well as their previous employment to help prepare you for the level of concern.
- Try to have two or more auditors onsite. If you are the only auditor onsite and encounter a shady situation, call your supervisor to see if another auditor can be sent out immediately.
- Be careful about letting them know what hotel you are staying at or discussing any personal information around them.
- Take extra precaution with documents and laptops.
- Consider discussing initial findings with the other auditors off-site in a private location (i.e., during car ride to hotel, in hotel room, etc.)



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Shady Firms: Snooping Auditees

Class Video Exercise #3: CEO Secretly Rifling Through Auditor's Briefcase and Documents

- What Should the Auditor Have Done Differently? What Did She Do Well? How Should She Probe the Matter?

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Shady Firms: Snooping Auditees

Class Video Exercise #3: CEO Secretly Rifling Through Auditor's Briefcase and Documents
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Shady Firms: Untruthful Auditees

Auditor Techniques:

- Untruthful Individual
 - Make sure all relevant documents are available during the interview
 - Restate/paraphrase their comments
 - Ask them to help you reconcile any conflicting statements
 - As a general rule, auditors do not confront them/accuse them of lying — just gather the facts — Investigations will confront them later if necessary
 - Take comprehensive notes



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Lack of Cooperation: Possible Stalling Techniques by Auditees

1. Slow Record Production

- Auditors should keep really good records of their requests and discuss deadlines up front with the auditee. If an auditee has a pattern of failing to meet deadlines without a reasonable excuse, then this should be brought to your management's attention.
- Make sure the auditee knows you can take information on a rolling production.
- If the auditee always gives you half a file, or a partial set of documents causing you to continually make additional requests to get what you want, you should discuss it with the auditee.
- Sometimes you need to go above your contacts/liaison at the auditee to get corrective action. Escalate repeated issues or unreasonable responses.

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Lack of Cooperation: Possible Stalling Techniques by Auditees

- **Class Exercise #4: What if the Auditee Demands Counsel Present at Every Interview? Do We Have to Accommodate This?**

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Lack of Cooperation: Possible Stalling Techniques by Auditees

2. Auditee Demands Counsel Present at Every Discussion/Request

- Just to be clear: Individuals do not have the "legal" right of representation of legal counsel during an audit, but generally would in an investigation, especially if they are questioned about any possible wrongdoing of their own.
- Auditees can certainly provide counsel for their employees, but it should not stall the process. An attorney can easily take part in a conference call interview. We do not have to wait for them to attend in-person.
- Counsel cannot delay the interview until another day just so they can prepare the employee.
- Counsel should not be allowed to answer our questions addressed to an employee during an interview. Advise them up front and if they continue to interfere, tell them they will be asked to leave.

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Lack of Cooperation: Possible Stalling Techniques by Auditees

- Class Exercise #5: What Do You Do if the Auditee Will Provide Records, But Refuses to Speak to Your Audit Team?

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Lack of Cooperation: Other Situations

Inadequate Office Space for Auditors

- Auditors need to recognize when an auditee is just trying to give them a poor working environment or when the auditee really just does not have the space.

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Peculiar Situations

REAL CASES #3:

NO HEAT AT THE FIRM



EMPLOYEE CRYING



PARROT AT OFFICE



ASKED BY CEO TO HOLD HANDS & PRAY



SPEAKING DIFFERENT LANGUAGES



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Peculiar Situations

Auditor Techniques:

- Expect the Unexpected



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Dangerous Situations

- Real Example: Auditor in a small town during a Neo-Nazi street protest.
- Ask the firm up front about closing time and automatic shut down of lights, elevators, etc.
- Auditors have been locked in the dark when the lights and elevators automatically shut down in the firm's building, locked in the building's parking garage, etc.

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Open Discussion

- Allow Attendees to Share Experiences

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