

A collage of four images on the left side of the slide: a green lawn with trees, a modern building with a glass facade, a classical archway, and a blue sky with clouds.

UNIVERSITY OF ILLINOIS

AT URBANA-CHAMPAIGN



2015 BUSINESS LEADERSHIP CONFERENCE

Fraud Awareness in Higher Education

Darla Hill, Director of Audits, and
Jill Verdeyen, Enterprise-wide Auditor

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A Shared Vision

Learning Objectives

- Common fraud scenarios in higher education
- How these common fraud scenarios occur within our specific environment
- Correlation of common red flags to the most common frauds
- How fraud and internal controls relate
- Where to start when you have fraud concerns

Common Forms of Fraud in Higher Ed

- Personal purchases on the p-card
- Using original appropriate purchase receipts for personal reimbursement
- Inappropriate charges to a travel or account payable voucher
- Theft of inventory items
- Theft of cash from deposits
- Falsifying time card with time not worked
- Misappropriation of Assets
- Conflict of Interest (e.g., companies, admissions, hiring)
- Unauthorized System Changes
- Forgery

Common Forms of Fraud in Higher Ed (continued)

- Invalid workers' compensation claims
- Identify Theft
- Kickbacks
- Bribery
- Misrepresentation/Concealment of material facts
- Theft of trade secrets or intellectual property
- Use of University resources for personal benefit (e.g., copier, secretary time, lab equipment, machines)
- Presentation at conference for personal benefit (i.e., trips abroad)
- Conference costs are paid by the host but copies of the receipts are used to seek reimbursement from the University

Academic Fraud Case

UNC, African & Afro-American Studies Dept.

- “...students at large benefited from anomalies specific to the department, such as unauthorized grade changes, forged faculty signatures on grade rolls and limited or no class time.”
- The independent investigation shows that irregularities in the Department date back to fall 1997.
- “...review found 216 classes with proven or potential problems, including 454 unauthorized grade changes.”
- “...more than 50% of the students in those suspect classes were athletes.
- Results of the internal investigation shared with the NCAA.

Embezzlement Fraud Case #1

College of DuPage

- Radio station engineer at the college radio station for approx. 30 yrs
- Submitted phony invoices totaling \$200K-plus from his side business from June 2006 to December 2013 for materials the school never received & work he never performed
- Not his 1st offence – Convicted of a felony for using same business to steal from Elmhurst College
- Also, he averaged approx. 14 hrs of OT per week for the last 2 years he was employed.
- Personal Penalties:
 - If convicted, up to 15 years in prison

Embezzlement Fraud Case #2

U of L School of Medicine, Dept of Family & Geriatric Medicine

- Former Executive Director pleaded guilty to a 7 count federal indictment, including charges of theft, bribery, money laundering, mail fraud, & filing false federal income tax returns.
- Admitted to diverting contractual checks & patient payments to the University Family & Geriatric Medicine Association account, then withdrawing \$2.8M for his personal use & benefit.
 - January 2007 through August 2013
- To conceal the theft, false bank reconciliations & false bank statements were created.
- Personal penalties: Prison (64 months) & \$2.8M restitution*
 - * - If recommended sentence is imposed. Sentencing set for March 12, 2015.

Federal Fraud Case #1

Morgan State University, \$200k

- Wire Fraud, Mail Fraud, Falsification, Theft; NSF
- STTR grant, funds converted to personal use by the PI
 - Personal mortgage payments
 - Payments to spouse
 - Students told to return a portion of their stipends to the PI
- University of Maryland listed as CRI
 - PI misrepresented involvement of University of Maryland
- Personal penalties:
 - Prison (3 years)
 - \$106k restitution

Federal Fraud Case #2

Northwestern, \$3M

- False Claims Lawsuit, NIH
- PI “submitted for reimbursement from the federal grants for professional and consulting services, subcontracts, food, hotels, travel and other expenses that benefitted [the PI], his friends, and family...”
- In a related news article, it is described that an administrator “spotted suspicious activity on [the PI]’s paperwork, ... submitted reimbursement claims ‘significantly in excess’ of his original budget, and many of his vendors and consultants did not fully explain what they did for him.”

U of I Fraud Cases

Fraud Case #1

- Supervisor and a staff
- Neither working full time, but they covered for each other
- Goods for resale or use in production was never inventoried, process wasn't segregated (physical, ordering, receiving), was not accurate
- Created widgets were never compared to purchase orders or inventory volume
- Productivity in terms of widgets produced to hours worked was not reviewed
- Complaint received in our office was the third instance over the course of 5 years

Tips:

- ✓ Segregation of duties for inventory and purchasing process
- ✓ Annual review of productivity to industry, history, and reasonableness
- ✓ Take complaints seriously

Fraud Case #2

- Facilities person responsible for purchasing supplies
- No records of inventory balances nor ins and outs maintained
- Segregation of duties in the purchase of supplies existed but the person who put the order in to the business office, received the goods, controlled the inventory, and made the replacements
- Volume of purchasing increased every year
- Account used was a “departmental” account that was not heavily scrutinized, reviewed for trends, etc.

Tips:

- ✓ Require “owner” verification of need be documented and supplied as part of purchase documentation
- ✓ Inventory records for the process
- ✓ Analytical review of purchases and usage

Fraud Case #3

- Director of a unit
- Negotiated and controlled asset trades and provided excel support for trades
- Overrode controls regarding physical asset verification by the person controlling FABweb
- Designed a system where two individuals had roles over assets but they never reconciled and each had a piece of the information
- Negotiate and controlled all sponsorships

Management override of controls should be reported!!

Tips:

- ✓ Trades should be supported by outside, third party, documentation
- ✓ If you don't have knowledge of the transactions appropriateness, discuss and decide who should be in the loop
- ✓ The independent physical asset verification should be used to update FABweb
- ✓ Sponsorships should all have formal contracts and be appropriately routed for signature/filing

Fraud Case #4

- P-card reconciler didn't have full knowledge of the operations (what was reasonable what was not)
- The P-card holder purchased groceries for catering operation (approx. \$700 per week)
- P-card holder also received the groceries and all other purchases
- No inventory, no security
- No management review of purchasing
- 2nd employee with knowledge of the operations happened to receive goods in one instance and noted unusual purchases

Tips:

- ✓ Assign someone knowledgeable regarding operations to reconcile (they have to know when it doesn't seem reasonable) or create some parameters
- ✓ Segregation of duties on purchasing, receiving, and reconciliation where possible
- ✓ Management review and reporting of transactions
- ✓ Consider inventory and security

Fraud Case #5

- Employee submitted false travel vouchers
 - Had some actual receipts, mostly mileage
- Elaborate record of meetings within FACTS
- Reporting shows lack of productivity
- Internal pressures on results
- Meetings handled alone
- Outside employee happened across FACTS report

Tips:

- ✓ Monitor personnel on operational levels – measure against objectives
- ✓ Listen for concerns related to the control environment
- ✓ Apply general skepticism on repetitive vouchers where no receipts are required, ask yourself if additional validation is available

Red Flags - General

- High personnel turnover
- Low employee morale
- No supporting documentation
- Incomplete or untimely bank reconciliations
- Increased customer complaints
- Write-offs of inventory shortages with no attempt to determine the cause
- Unrealistic performance expectations
- Rumors of conflict of interest
- Unreconciled accounts
- Frequent use of sole-source vendor
- Consistent or excessive overtime
- Purchases made after business hours from restaurants, gas stations, or other merchants

Red Flags – Grants

- Repeated lack of information, documentation, justifications
- Labor redistributions and cost transfer journal vouchers (e.g., trimming, volume)
- Pattern of using one grant at a time
- Spending %'s are out of sync with the grant period
- Weak control environment
- Use of multiple approvals, business offices, administrative staff (i.e., likes confusion, excuses)
- Late agency reporting
- Agency administrators unhappy

Red Flags - Grants *(continued)*

- Always using last minute approach – crisis mode
- Staff or peer complaints
- Refusing to complete semi-annual certification
- Charges at the end of the grant (e.g., equipment, labor redistributions)
- Identifying cost share is difficult, in kind cost share not well documented
- Consistent overtime
- Demand for original receipts back
- Accidental charges of personal expenses

Red Flags – Workers' Compensation

- Claimant is a new employee, disgruntled, on probation, facing layoff or about to retire.
- Claimant has financial problems.
- Claimant waited days or weeks before reporting accident/injury.
- The accident/injury occurred “late Friday” or “early Monday morning”.
- No witnesses or the only witnesses are individuals who have a “close” relationship with the claimant.
- Claimant provides vague or inconsistent details about the accident/injury.
- Accident/injury reportedly occurred at a location away from where the claimant normally works.
- Claimant is unusually pushy about settling the claim.
- Claimant is involved in physical hobbies or sports.

Additional Take-Aways

- Tips are consistently and by far the most common detection method.
- The smallest organizations tend to suffer disproportionately larger losses due to occupational fraud.
- The higher the perpetrator's level of authority, the greater fraud losses tend to be.
- Many cases involve more than one category of occupational fraud.

What's My Action Plan

- Understand Policy

Non-OBFS Policies, Reporting Fraud or Misconduct, Whistleblower Protection, and Investigations

- ✓ Management employees are responsible for detecting fraudulent activities or misconduct in their areas of responsibility
- ✓ When dishonest or improper activity is detected or suspected, management should determine whether an error or misunderstanding has occurred or whether possible fraud exists

- Contact authorities

- ✓ University Ethics
- ✓ Office of University Audits
- ✓ University Police
- ✓ Legal Counsel

 We work together

Reporting Who's and How's

- Ethics Office – (866) 758-2146
 - Whistleblower protection
- Office of University Audits – (217) 333-0900
 - Darla Hill, Director – (217) 265-5400
- State of Illinois, Office of the Executive Inspector General – (217) 558-5600

Questions?