

Fraud/Not Fraud

The University of Texas Approach

13th Annual Fraud Summit

Benefitting the UT Dallas Center for Internal Auditing Excellence

March 23, 2018



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Agenda

- Definitions
- Collaboration and Coordination
- Case Studies



Definition of Fraud

Source: Black's Law Dictionary

*A **knowing misrepresentation** of the truth **or concealment** of a material fact to induce another to act to his or her **detriment**.*

Source: www.acfe.com

*In the broadest sense, fraud can encompass any crime **for gain** that **uses deception** as its principal modus operandus.*

Fraud includes any intentional or deliberate act to deprive another of property or money by guile, deception, or other unfair means.

Three elements: Financial Pressure, Rationalization, Opportunity



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Definitions

➤ Inquiry

Someone asks a question or wants information about a specific topic, department, person, or business process.

These are small, informal requests, generally involving research of a specific topic or process, that provide limited or no assurance. This includes inquiries or requests that take minimal effort, and do not result in recommendations to management or lead to a larger engagement.



Definitions

➤ Review

In-depth study of a business process, department, program, or event to meet a specific objective or answer a specific question.

There are generally requested by management or initiated as the result of an inquiry. The extent of review is dependent upon the nature of the topic and needs of the requestor.



Definitions

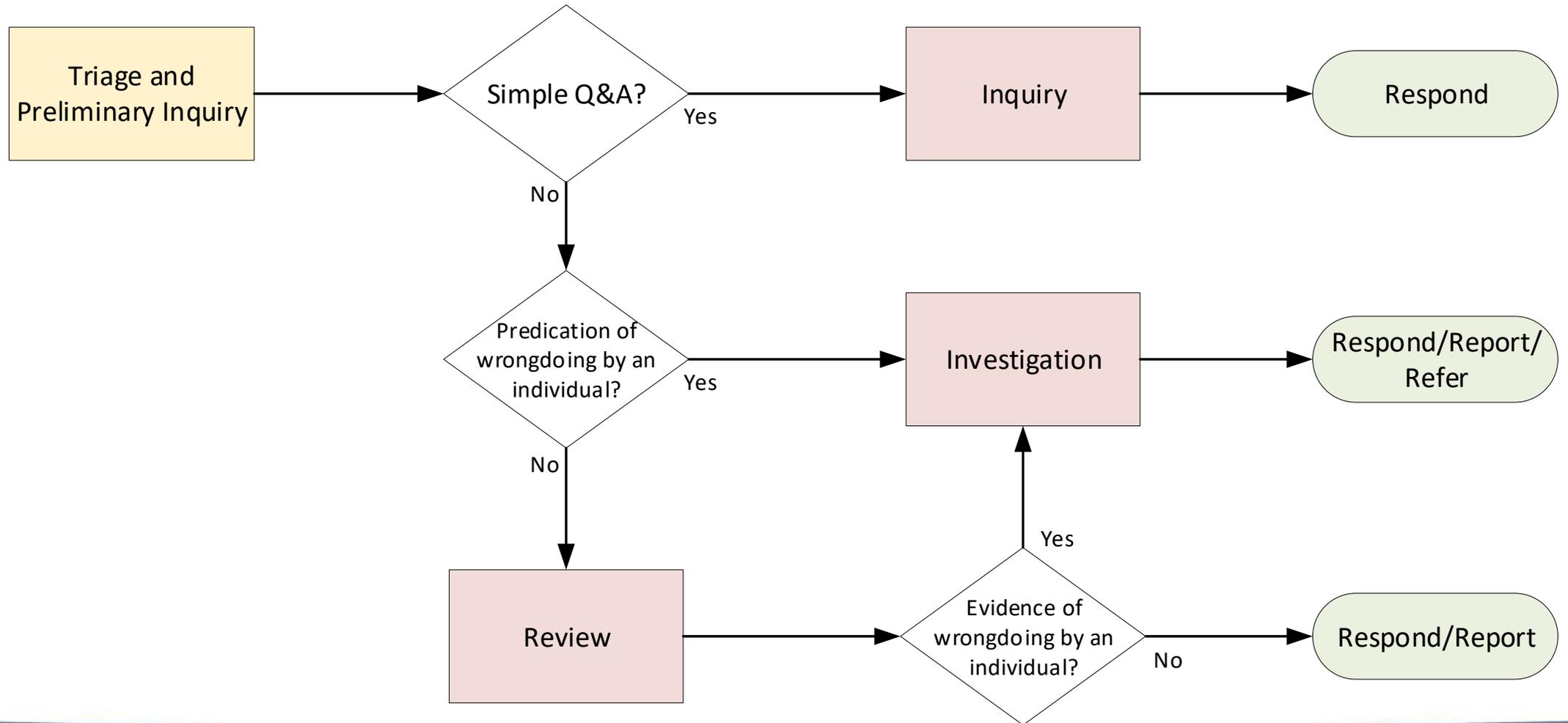
➤ Investigation

In-depth examination of specific records, documents, processes, or actions of an individual(s) suspected of wrongdoing.

There are usually initiated after a specific accusation is received or an inquiry or review (or audit) indicates the possibility of individual(s) wrongdoing.



Definitions



Collaboration and Coordination

Policy:

Internal Audit must supervise all audits of allegations of defalcation, misappropriation, and other fiscal irregularities.

When an audit reveals suspected criminal activity, or an audit is initiated due to an allegation of criminal activity, the University Police must be notified immediately.



Collaboration and Coordination

Collaboration at the Institution Level:

- Legal affairs
- University police
- Compliance
- Department leadership
- Human Resources
- Federal Inspectors General
- State Auditor's Office
- UT System Administration



Collaboration and Coordination

Collaboration at the System-wide Level:

- Specialty Audit Services
- Chief Inquiry Officer
- Campus CAEs, CLO
- Director of Police
- Federal Law Enforcement (FBI)
- General Counsel
- Texas Attorney General
- State Auditor's Office



Case Studies:

Fraud or Not Fraud?

- A **knowing** misrepresentation of the truth or concealment of a material fact to induce another to act to his or her detriment.
- Any **crime for gain** that **uses deception** as its principal modus operandus.
- Any **intentional or deliberate act to deprive** another of property or money **by guile, deception, or other unfair means.**



Case Study: Don't mess with the Feds!

Government Study Participants Underpaid



Fraud/Not Fraud?

Source: Department business officer

Type: Review >> Investigation



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Don't mess with the Feds!

- Business Officer questioned cash advance reports of two researchers
- Initial inquiry revealed no issues with either researcher, but Business Officer kept searching
- Second researcher had access to funds from four federal grant awards for use on human subjects
- Researcher scribbled out grand totals at the bottom of Multiple Participant Research forms and rewrote the total (funds were from federal grant awards)
- Totals matched line item amounts from participant payments
- Researcher admitted to scratching out totals because of “bad math” completed by lab personnel



Don't mess with the Feds!

- *Intentional deception, misrepresentation, or concealment of truth?*
- *What was the detriment or harm?*
- *To whom?*
- *What was gained by the perpetrator?*
- *Elements of Fraud Triangle? Financial pressure, rationalization, opportunity*

FRAUD



Case Study: Blame it on Alexa



University employee falsifies Amazon receipts

Fraud/Not Fraud?

Source: Department

Type: Investigation



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Blame it on Alexa

- Faculty member requested review of Procurement Card (Procard) purchases
- Faculty member's Procard was used to make purchases from the college's Amazon account as well as other retail stores
- Accused employee stopped sending monthly account reconciliations to the faculty member
- Faculty member began to see irregularities after going to Business Officer for the reports
- Employee submitted altered Amazon receipts to conceal unauthorized purchases paid for with the Procard



Blame it on Alexa

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FRAUD



Case Study: Museum Heist



Museum Cash Missing

Fraud/Not Fraud?

Source: Anonymous tip

Type: Investigation



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Museum Heist

- Anonymous person came in the office and reported misuse of funds
- Stated seeing the accused employee taking money from the cash register for personal use
- Brought evidence of:
 - Misuse of cash register funds
 - Adjusting sales numbers to match funds deposited
 - Abusing reportable hours
- The same day, Internal Audits completed a surprise cash count and found a shortage of \$102.18
- Accused employee asked whether the shortage could be taken out of the donation box
- Internal Audits found discrepancies in cash register documentation as well as a substantial number of returns each day



Museum Heist

CAN I JUST TAKE THE SHORTAGE OUT OF THE DONATION BIN?



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FRAUD



Case Study: What about the children?

\$1 Million missing from Federal after-school program

Fraud/Not Fraud?

Source: *Anonymous letter*

Type: *Investigation*



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What about the children?

Allegations:

- Misuse of grant funds intended to operate a K-8 after-school program promoting STEM subjects, including paying unrelated expenses from grant funds so other funding sources could be used for unnecessary travel and covering expenses of spouse's department
- Nepotism and cronyism
- Conflict of Interest / Conflict of Commitment and performing outside consulting activities on University's time and money



What about the children?

Misuse of grant funds - **CONFIRMED**

\$1.1 Million in salaries and related benefits paid to 21 employees not involved in performing work related to the grants. Extended far beyond information provided by the complainant. (Total grant funding = approximately \$12 Million)

Nepotism & Cronyism - **CONFIRMED**

Frequently hired friends and associates from prior employment, and family members of other employees within his and his spouse's departments. Approved appointments and salary for spouse and step-child for salary/wages paid from department accounts.

Conflict of Interest - **CONFIRMED**

Engaged in outside (paid) consulting activities that were not disclosed and approved, used University funds for related travel, and approved at least one employee to perform outside (paid) consulting activities during work time. Also owned shares of former employee's private company and formed new LLC with other current and former employees, both directly related to employment KSAs.



What about the children?

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NOT FRAUD



Case Study: La Bohème 🎵



Donations used for trips to Hawaii, New Zealand, and Venice Opera

Fraud/Not Fraud?

Source: Media report

Type: Investigation



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La Bohème 🎵

- Newspaper report of lavish spending (using information obtained through open records request).
- Frequent travel, with an unusual amount of foreign travel.
- Approximately \$380,000 spent on travel (over ten years)
 - 60 Out-of-state trips
 - 34 Foreign trips
 - 577 Travel days
- Vague business purpose statements on travel records
- Routinely hosted meals while travelling
- Purchase of event tickets and gifts while travelling
- Reimbursed occasional direct-billed or charged personal expenses with check. Of 46 checks, 44 were processed as donations and a gift acknowledgement letter was issued.



La Bohème 🎵

How do you raise hundreds of millions of dollars for one of the state's leading public institutions, helping it attain world-class status in the process? Well, you're unlikely to do it by meeting a wealthy potential donor over coffee at the corner Starbucks, or by asking for a 15-minute chitchat at his or her business office. You meet such donors on their own terms, on their own turf. And the courtship can take years. It might even involve a trip to the opera, say, or a nice bottle of wine. Anyone who finds this fact of life shocking or objectionable or somehow untoward is probably naïve.



La Bohème 🎵

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NOT FRAUD...Maybe



Case Study: 20-Year Lease



Rent payments missing from University housing account

Fraud/Not Fraud?

Source: Department business manager

Type: Investigation



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20-Year Lease

- Routine cash count indicated register was \$100's short; office manager located missing cash and provided explanation related to workload and temporary disorganization due to other projects.
- Tenant questioned why her rent payment had not posted to her student account; new supervisor began to research while office manager was out on vacation. Was told some duties (register close-out, deposits, etc.) were suspended when office manager was out, and duties were "too complicated" for cross-training.
- Office manager researched issue, explained the error, and posted an adjustment to the student's account. When asked to provide evidence of the error to the new supervisor, said "it's really complicated and you won't understand the report, so let me just tell you what happened."
- First red flag: no separation of duties between cashier, daily close-out, deposit, reconciliation, access to post to student accounts, and other duties.



20-Year Lease

	Payment made in UV Office		Payment posted to tenant account		Adjustment to tenant account	Net effect on tenant account
Tenant 1	\$460.00	Cash	\$460.00	Check		\$460.00
Tenant 2	\$460.00	Check			(\$460.00)	\$460.00
Net check	\$460.00	Rec'd	\$460.00	Posted		
Net cash	\$460.00	Rec'd	\$0.00	Posted	\$460.00	Cash shortage

20-Year Lease

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FRAUD



Case Study: Stacks of Cash



Stack of \$100's Found in Fired Employee's Office

Fraud/Not Fraud?

Source: Legal Affairs

Type: Investigation



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Cashing In

- Investigation of alleged misconduct arose from an open records request concerning payments made to an employee's retail store from the university
- Objective was to determine whether there was a conflict of interest surrounding payments made by the university to the employee-owned business
- Investigation and ten related interviews were performed in partnership with Legal Affairs
- Employee and supervisors stated that they were not aware of relevant policies regarding self-dealing and purchasing from employee-owned businesses
- Outdated annual Outside Employment approval
- Assistant signed for the Employee on official forms
- Common knowledge that the Employee owns the store



Cashing In



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Cashing In

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