

NATIONAL SCIENCE FOUNDATION
OFFICE OF INSPECTOR GENERAL
OFFICE OF INVESTIGATIONS

CLOSEOUT MEMORANDUM

TO: AIGI

File Number: I97070032

Date: 02 March 2002

Subject: Closeout Memo

Page 1 of 1

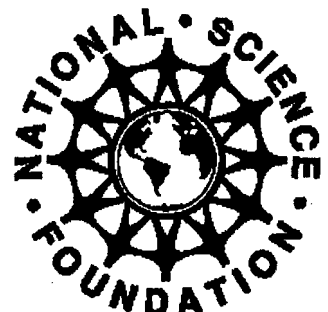
There was no closeout written at the time this case was closed. The following information was extracted from the file in conformance with standard closeout documents.

Our office was informed that the subject¹ was alleged to have committed embezzlement, theft, or diversion of grant funds. The University's² audit branch notified NSF-OIG that the subject, a secretary on an NSF grant³, had generated false vouchers and received payments for guest speakers who did not exist, and had stolen computers purchased with NSF funds. The University police executed a search warrant and recovered financial documents and stolen computers worth \$5,077. Prosecution of the subject was coordinated with the local district attorney's office. The University returned the remaining loss of \$47,034 to the NSF grant, for a total recovery of \$52,111. The subject and two other individuals pleaded guilty in state court. The subject was sentenced to one year in jail, restitution, and probation. The two other individuals received probation.

Accordingly this case is closed.



Name:	Prepared by:	Cleared by:		
	Agent:	Attorney:	Supervisor:	AIGI
Signature & date:				



SENIOR VICE PRESIDENT--BUSINESS AND FINANCE

OFFICE OF THE UNIVERSITY AUDITOR

MATHEMATICS AND SCIENCE

Internal Audit No.

Report on Defalcation

December 1997

Prepared by:

_____, CPA
Principal Auditor

Approved by:

_____, CPA
Director of Audit

_____, CPA
University Auditor

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I. INTRODUCTION

A. Purpose of the Investigation

On June 13, 1997, the University Auditor was contacted by the Director of Administration for Academic Advancement. The Director was concerned about the activities of an employee, _____, in the _____ (_____). Department investigation procedures had ascertained that _____ ordered a Dell Laptop computer that had not been authorized and had apparently forged the signature of the Assistant Vice President for Academic Advancement on an Entertainment Check Request.

The Office of the University Auditor initiated an investigation into the concerns raised by the Director of Administration for Academic Advancement. The objectives of the investigation were to:

1. ascertain the validity of the concerns raised about _____
2. quantify the amount of any loss,
3. ascertain the methodology used to commit any fraudulent activities,
4. determine if any other individuals were involved in any fraud identified, and
5. identify internal controls that may have been circumvented by any fraudulent activities.

B. Scope of the Investigation

The non-payroll transactions of _____ for Fiscal Years 1995-96 and 1996-97 were reviewed as part of the investigation. The investigation included an examination of invoices, independent consulting agreements, contract files, subcontract agreements, canceled checks, travel vouchers, computer reports, correspondence files, personnel records, and interviews of employees and vendors.

The investigation also included a limited review of _____ subcontractor (formally known as _____). The review focused on controls over vendor payments, specifically stipend payments.

Investigative efforts were coordinated with the _____, Police and Special Agents of the Office of the Inspector General, National Science Foundation (NSF). NSF's Special Agents requested and were provided periodic updates on the status of our investigation. NSF Special Agents attended our initial meetings with _____.

C. Background

_____ is _____'s state initiative to promote math and science education reform. Funding for _____ is provided by a grant from NSF.

The _____ State Department of Education (_____ was initially responsible for managing and overseeing _____ activities. _____ awarded _____ (formally known as _____ a subcontract to operate and administer _____'s two programs: _____) and _____.

Under the subcontract _____'s responsibilities included:

- employing directors for _____ and _____
- securing and managing extramural funds, _____
- working with _____ in developing policy and strategic plans for _____, and _____
- assisting with outreach and public relations.

Responsibility for _____ was transferred from the _____ to the University in September 1994. The University became responsible for managing and overseeing all activities related to _____ and for providing leadership, policy coordination, and strategic planning and implementation for the entire initiative. The transfer included oversight responsibility of _____'s \$1.5 million subcontract. The Office of Academic Collaboratives in Education, within the Department of Academic Advancement, administers the _____ program. Director _____ is the University employee responsible for overseeing _____'s operations.

continues to provide support by allowing to purchase airline tickets through the travel agency. Director as overall coordinator is also allowed to purchase airline tickets through the travel agency.

was Director's Administrative Assistant and was responsible for vendor contracts and invoices including's subcontract.

II. RESULTS OF INVESTIGATION

Administrative Assistant defrauded the University of \$55,517 by initiating fraudulent disbursements, stealing computer equipment and supplies, and stealing cost reimbursement checks. \$5,077 of the \$55,517 has been recovered. was able to accomplish her fraudulent activities in part because she undermined internal control procedures by forging signatures and supporting documents. No evidence of involvement by other University employees was noted.

A summary by type of transaction of the \$55,517 loss amount and the \$5,077 recovered amount is set forth in Appendix A.

A. Stipend Payments

Finding

Administrative Assistant defrauded the University of \$31,246 by initiating and processing nineteen fraudulent payments to friends and relatives. (See Appendix B for detailed listing.)

Comments

was hired in September 1995 to be Director's Administrative Assistant. Her duties included, among other things, the preparation of expenditure documents, the monthly reconciliation of's General Ledger, the preparation of's budget reports, and ordering department supplies.

However, _____ did not have authority to approve expenditure documents. _____ generally circumvented this control in two ways. _____ would either forge the supporting documentation or forge an approver's signature. Since _____ performed the G/L reconciliation there was little chance the forgeries would be detected. Characteristics of the fraudulent payments were as follows:

- checks were delivered to _____ instead of being mailed to the payee,
- payees were family or friends of _____
- checks were cashed by payees at local _____ Bank Branches or deposited into _____'s bank account, and
- supporting documentation either was forged or did not exist.

B. Equipment

Finding

Administrative Assistant _____ stole three Dell computers and one HP DeskJet Printer totaling \$11,414. (See Appendix C for detailed listing.)

Comments

Concerns about _____ first surfaced when _____'s Property Management Unit sent Property Tags for two Dell Laptop computers to Academic Advancement's Inventory Manager. The Inventory Manager had no paper work on the computers and requested the paper work from _____.

The paper work provided by _____ showed the purchase of a single Dell laptop computer. Academic Advancement's Inventory Manager contacted _____'s Property Management Unit to correct the number of computers purchased. However, _____'s Property Management reaffirmed its position and sent a copy of the Dell Purchase Order which showed the purchase of two Dell Laptop computers.

_____ was then confronted with _____'s Purchase Order. _____ stated that she had decided to order the second computer because of discussions she had with the _____ Director regarding a Laptop computer for another individual in the unit. _____ then contacted Dell Computer and obtained a return authorization number.

However, the computer was never returned. The Department Inventory Manager contacted Dell Computers on July 10, 1997, to verify that the computer had been returned, but was informed that the computer had not been returned and the return authorization had lapsed.

A subsequent physical count of the department's inventory disclosed two Dell Optiplex 5100/xm computers missing. The Department's Director of Administration stated that a HP DeskJet color printer was also missing. A search of _____'s residence by the _____ police recovered one missing Dell Optiplex 5100/xm computer, the missing HP DeskJet color printer, and the _____ property tag for the other missing Dell Optiplex 5100/xm computer.

C. Supply Purchases

Finding

Administrative Assistant _____ made twenty supply purchases totaling \$6,744 that were fraudulent or had no supporting documentation. (See Appendix D for detailed listing.)

Comments

One of _____'s duties was to buy supplies for the department. Our review of Academic Advancement's supply purchases disclosed twenty purchases that had no supporting documentation, such as supply requests, receiving reports, invoices, and entries in the Department Procurement Authorization Log.

Documentation for two of the twenty purchases was obtained by Police during the search of [redacted]'s residence. One was a \$1,564 purchase from [redacted] for upgrading one of the Dell computers that she stole from [redacted]. The other was a \$213 purchase of software that was later returned. Our review could not locate a credit in the [redacted] Ledger for the \$213.

D. Cost Reimbursement

Finding

Administrative Assistant [redacted] defrauded the University and the Department of Education of \$5,951 by inappropriately diverting cost reimbursements to herself and her sister. (See Appendix E for detailed listing.)

Comments

American Association for the Advancement of Science

[redacted] entered into two agreements, each referred to as a "Memorandum of Understanding," with the American Association for the Advancement of Science (AAAS). The agreements stated that AAAS would provide financial assistance to [redacted] in sponsoring conferences.

[redacted] was able to divert an AAAS reimbursement of \$4,120 by inappropriately completing the "Payer's Request for Taxpayer Identification Number and Certification." Instead of showing the University as Payee, [redacted] listed her sister [redacted] as payee. Accordingly, AAAS sent the check to [redacted] instead of the University.

Director [redacted] attended a conference in Washington, DC in October 1996. All costs associated with the trip were to be paid by [redacted] y. A University "Travel Expense Report" in the amount of \$1,831 was prepared by [redacted] on behalf of Director [redacted]. The "Travel Expense Report" was submitted to [redacted] in January 1997.

Expenses claimed on the "Travel Expense Report" were: airfare \$1,792, parking \$30 and meal \$9.17. The costs actually paid by Director [redacted] were parking and the meal. (The airfare was charged to the [redacted] Department of Education's account by [redacted]. Once [redacted] had reimbursed the \$1,792 airfare, the [redacted] State Department of Education should have been reimbursed the \$1,792, since it paid the airfare.)

A search of [redacted]'s bank records disclosed the deposit of the \$1,831 [redacted] check. The check had been endorsed over to [redacted] by Director [redacted]. However, Director [redacted] stated that he had never endorsed any check over to [redacted].

Director [redacted] Drivers License number was also on the check. However, during our review of [redacted]'s office we found a photocopy of Director [redacted]'s Drivers License. During our interview of Director [redacted] he stated that on several occasions he had given [redacted] his wallet.

E. Travel Vouchers

Finding

Administrative Assistant [redacted] defrauded the University of \$162 by submitting claims for airfare costs [redacted] did not incur. (See Appendix F for detailed listing.)

Comments

A review of [redacted]'s travel reimbursements disclosed that she claimed reimbursement for airfare she did not incur on two travel vouchers. The tickets for both trips were purchased through [redacted] and charged against the [redacted] State Department of Education account. [redacted] did not incur any airfare cost.

Investigation
Project No.
Summary of Fraudulent Transactions

Appendix A

<u>Area</u>	<u>Loss Amount</u>	<u>Loss By Fund Source</u>		<u>Reference</u>
		<u>NSF</u>	<u>Other</u>	
Stipend Payments	\$31,246	\$29,632	\$1,614	Appendix B
Equipment	11,414	11,414		Appendix C
Supply Purchases	6,744	6,744		Appendix D
Cost Reimbursement	5,951	4,159	1,792	Appendix E
Travel Vouchers	<u>162</u>	<u>162</u>	<u></u>	Appendix F
Loss Before Recoveries	\$55,517	\$52,111	\$3,406	
Less Recoveries				
Computer Equipment	\$3,513	\$3,513		Appendix C
Computer Supplies	<u>1,564</u>	<u>1,564</u>	<u></u>	Appendix D
	<u>\$5,077</u>	<u>\$5,077</u>		
Adjusted Loss	<u>\$50,440</u>	<u>\$47,034</u>	<u>\$3,406</u>	

Investigation
Project No. , ,
Schedule of Fraudulent Payments

Appendix B

<u>Federal</u> <u>Grantee</u>	<u>Payee</u>	<u>Relationship</u>	<u>Payment</u> <u>Type</u>	<u>Req No</u>	<u>Check</u> <u>Number</u>	<u>Issue</u> <u>Date</u>	<u>Amount</u>	<u>Note</u>
DOE		Friend	Stipend	F594118	25-78065	10/23/95	\$158	
NSF		Friend	Stipend	F565439	27-75983	8/21/96	575	
DOE		Friend	Stipend	F573042	26-02775	10/23/95	158	
NSF		Friend	Stipend	F565438	27-75985	8/21/96	575	
NSF		Friend	Stipend	F565466	25-40558	10/17/96	5,001	
DOE		Cousin	Stipend	F594117	25-80964	10/23/95	157	
DOE		Husband	Stipend	F573040	25-86474	10/25/95	270	
DOE		Husband	Stipend	F594121	26-02768	10/23/95	713	
NSF		Husband	Stipend	F573016	27-75984	8/23/96	2,500	
NSF		Husband	Honorarium	F565408		7/23/96		1
NSF		Husband	"	F565408		7/23/96		1
NSF		Husband	"	F565408	29-23603	4/17/97	4,800	
DOE		Sister	Stipend		25-57159	9/28/95	158	
NSF		Sister	Stipend	F565436	27-76363	8/21/96	1,575	
NSF		Sister	Stipend	F565409	27-90315	7/23/96	2,874	
NSF		Sister	Stipend	F565449	28-40556	12/10/96	2,702	
NSF		Sister	Stipend	F682203	28-76886	1/17/97	4,730	
NSF		Sister	Editorial Serv	F565416	29-06383	3/10/97	1,800	
NSF		Sister	Editorial Serv	F565415	29-06384	3/5/97	2,500	
							<u>\$31,246</u>	

Note

1. canceled the first check because accounting mailed the check instead of sending the check to her. The second check was voided by accounting because of printing errors during the check write.

Investigation
Project No. 70.
Equipment Transactions

Appendix C

<u>Property Number</u>	<u>Description</u>	<u>Reference Number</u>	<u>Price</u>	<u>Notes</u>
	Microcomputer Dell OPTIPLEX 5100/XM		\$3,080	(A)
	Microcomputer Dell OPTIPLEX 5100/XM		3,080	
	Microcomputer Dell Latitude LM M166MMX		4,821	
	HP DeskJet 820 CSE		433	(B) (A)
Total			\$11,414	
Less Recoveries				
	Dell OPTIPLEX 5100/XM		3,080	
	HP DeskJet 820 CSE		433	
			\$3,513	
Adjusted Total			\$7,901	

Notes:

- (A) Equipment was recovered by police during their search of residence.
- (B) Printer was purchased using Low Value Purchase procedures. Accordingly, it was not placed into inventory but instead expensed.

Investigation
Project No
Supply Purchases

Appendix D

<u>Vendor</u>	<u>Amount</u>	<u>Comments</u>	<u>Notes</u>
	\$200	No Documentation	1
	\$172	"	"
	\$281	"	"
	\$249	"	"
	\$298	"	"
	\$183	"	"
	\$207	"	"
	\$587	"	"
	\$1,040	"	"
	\$157	"	"
	\$137	"	"
	\$189	"	"
	\$1,564	Defalcation	2
	\$213	"	3
	\$190	No Documentation	1
	\$146	"	"
	\$368	"	"
	\$205	"	"
	\$210	"	"
	\$148	"	"
Total	\$6,744		

Notes:

1. Documentation supporting the validity of these purchases could not be located. The University has decided to treat these purchases as not being valid.
2. This was a purchase of computer hardware to upgrade the stolen Dell OPTIPLEX Computer recovered by the Police during the search of [redacted] s residence.
3. Documentation for this purchase was recovered by the Police during the search of [redacted] s residence. This was a purchase of computer software that later returned for credit. However, our review of G/L could not locate the credit.

Investigation
Project No.
Cost Reimbursements

Appendix E

<u>Organization</u>	<u>Reimbursement Type</u>	<u>Amount</u>	<u>Notes</u>
American Assoc. for the Advancement of Science	Conference Costs	\$4,120	1
	Travel Expenses	<u>1,831</u>	2
		<u>\$5,951</u>	

Notes:

- 1 [redacted] diverted AAAS's \$4,120 payment by inappropriately completing the Payer's Request for Taxpayer Identification Number and Certification. [redacted] listed her sister [redacted] as payee instead of the University.
- 2 A search of [redacted]'s bank records disclosed the deposit of the \$1,831 [redacted] University check. The check had been endorsed over to [redacted] by Director [redacted]. However, Director [redacted] stated that he had never endorsed any check over to [redacted].

Investigation
Project No.
Travel Payments

Appendix F

<u>Travel Voucher No.</u>	<u>Traveler</u>	<u>Total Amount of Travel Voucher</u>	<u>Amount of Airfare Claimed</u>	<u>Note</u>
TV095952	Ms. E. H. H.	\$724	\$81	1
TV145026	Ms. H. H. H.	\$148	<u>81</u>	1
			<u>\$162</u>	

Note:

- 1 : airline tickets for both these trips were purchased through
 . The cost of the tickets were charged to State
Department of Education account at . should
not have claim reimbursement for airfare since she did not incur any
airfare costs.

OFFICE OF THE SENIOR VICE PRESIDENT—
BUSINESS AND FINANCE

OFFICE OF THE PRESIDENT

February 26, 1998

Grants and Agreements Officer
National Science Foundation
4201 Wilson Blvd.
Arlington, VA 22230

Subject: Internal Audit of Cooperative Agreement No.

Dear :

On July 17, 1997, we informed you that we had discovered an employee theft involving the subject agreement. At that time, we promised to provide you a report when our investigation was completed. As promised, enclosed is a copy of the internal audit. The investigation was conducted with the assistance of Special Agents and from the NSF Office of Inspector General.

Appendix A provides a summary of fraudulent transactions for the period of October 1995 through July 1997. Total losses to the NSF Cooperative Agreement amounted to \$52,111. Of this amount, \$5,077 was recovered in computer supplies and equipment, or replaced with comparable equipment provided by the University. The remaining loss was replaced with University resources.

The Police Department has requested that the County District Attorney's Office prosecute the individual involved in the theft. Our investigation did not find evidence of involvement in the theft by other University employees, and we terminated the involved employee in July 1997.

February 26, 1998
Page 2 of 2

The University department housing the project has since undergone extensive review, including internal audits of processes and procedures. System controls were strengthened in an effort to prevent any future losses resulting from fraudulent activity.

Should you have any questions, please feel free to contact me at (510) 987-9838.

Director
Research Administration Office

Enclosure (1)

cc: Director (w/ enc.)
Special Agent (w/ enc.)
Provost
Auditor
Director
Director
Director