Embezzlement, False Claims, Theft and Bribery, Oh No!

The real impact to your institution.

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Consequences of Fraud

Financial – Return of Grant funds; Fines and Penalty; Restitution; Administrative cost during investigation.

Reputation – Press coverage; Loss of trust by employees, management, and governing Boards.

Personal – Demotion; Loss of employment; Incarceration.

Civil Resolution of Cases

◆ Civil False Claims Act – 31 USC 3729-33
  • Liability for Defrauding Gov’t Programs
  • Fines $10,000 per claim/Treble Damages
  • Burdon of Proof – Preponderance of the Evidence – Deliberate Ignorance – Reckless Disregard of the Truth
  • Compliance Plan may accompany settlement
  • Corrective Plan/Return of Funds
Criminal Fraud Cases

- Burden of Proof – Beyond Reasonable Doubt – Knowledge and Intent
  - Travel Fraud – False or Duplicate Payments
  - Payroll Fraud – False or Fictitious Employees
  - Stipend Fraud – False recipients/vouchers
  - Invoice Fraud – Fake or enhanced Consultant or Vendor invoices or receipts
  - Duplicate Funding – Additional funding Used for Personal Business/Personal Activities

Why People Commit Fraud

Even the best systems of internal control cannot provide absolute safeguards against irregular activities

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Recent Civil Cases

- Northwestern – Civil False Claims (NIH) False Billing for travel and consulting
- Cornell Medical School – Qui Tam/Civil False Claims (NIH) False billing clinical patients.
- Yale University – Civil Settlement (Multiple Agencies) T&E/Cost Transfers

Civil Cases

- 2013 Emory- Research Financial – Clinical Trial Billing
- Cornell Weill Medical College
  2010 – Physician – private patient care
  2009 – Not Named - disclosure of research
  2005– Physician – private patient care
- 2006 – UCON- anonymous complaint to University – service center
- 2005 – UAB -Compliance Officer & Physician – research work overstated
- 2005 – Mayo-Research Accounting- Costs from Overspent Grants
Criminal Cases-Fraud by Researchers

Morgan State – Jha; Researcher indicted for Fraud involving SBIR awards to private Company; Abused position at University.

Penn State – Grimes; Researcher plead guilty multiple counts involving multiple agencies awards; Duplicate funding involving university and SBIR awards to company; 3 & 1/2 years prison sentence & $660,000 Restitution.

Fraud by Management

 UNIVERSITY OF LOUISVILLE – Dean Felner; Plead guilty to $2.25 mil misappropriated from 3 institutions; Sentenced to 5 years.

45 page Indictment charged Felner and a colleague of taking $1.7 M from Rhode Island school and $576,000 from U of L and attempted to embezzle another $240,000 from U of L.
Related Management Cases

- TSU – Nye, Center Director at TSU, plead guilty to submitting False Statements related to travel and salary $25,000 support private business not disclosed to TSU – sentenced to 6 months home confinement.
- TSU then found duplicate travel from Nye’s Research Site Director – Klentschy, a CA School District Superintendent.

Related Cases Continued

- Klentschy concealed from School Board that he was also employed at TSU and SDSU and was a paid consultant to multiple education institutions.
- Klentschy transferred NSF and DoED funds to SDSU and a private company while concealing his conflicts with SDSU and company officials.
Undisclosed Consulting and Duplicate Travel Payments

**68** Duplicate payments to the superintendent all charged to the School District which duplicated 27 other institution.

**11** Duplicate payments to his Science Center staff, cash returned to Superintendent.

**$60,000** in duplicate travel payments

**$70,000** in consulting/speaking fees.

Undisclosed Fraudulent Grant Salary Payments from TSU

Salary as CA Site Director from 2002 to 2007 -

$150,000 (2006 & 2007 - $50,000)

Salary to family friends in 2006 & 2007 for processing student testing data - $46,000

Salary to superintendent’s son from 2005 to 2007 for teacher videos $24,000

Payments in 2003 through consultant to the Superintendent for test data - $20,000
Superintendent’s Undisclosed Conflicts with NSF Grant

Recommended to Board that NSF funds for research and teacher stipends be transferred to SDSU; NSF research funds included salary for Assistant Research Director.

Recommended NSF payments for consultant, who also worked as university grant coordinator.

The Professor and Grant Coordinator initiated NSF salary payments ($78,000) to the Superintendent as Assistant Research Director.

Superintendent’s Undisclosed Conflicts with DoEd Grant

Recommended to Board that DoEd funds be transferred to SDSU, included salary for Assistant Researcher.

Assistant Dean and Grant Coordinator initiated salary payments ($32,000) to the Superintendent as Assistant Researcher.

Recommended DoEd payments for company, to conduct external evaluation. Company was owned by Assistant Dean.
Superintendent’s Undisclosed Conflicts with Company
Initiated DoEd Grant payments to company totaling $395,000.
Assistant Dean and Professor performed external evaluation receiving $152,250 each.
Superintendent was paid $90,000 by Assistant Dean through the company as Assistant Researcher.
Company invoices, approved by the Superintendent as PI on DoEd Grant, stated that the $90,000 was for an Assistant Researcher.

CA Univ. Staff Undisclosed Conflicts with Superintendent
Assistant Dean, Professor, and Grant Coordinator did not disclose to the university the outside work and payments from the Superintendent.
They did not disclose possible conflicts with the Superintendent prior to processing university grant funded salary payments to him.
They all resigned or retired from the university in lieu of termination.
Federal Indictments

Superintendent was indicted for Wire Fraud and Theft of Program Funds for the submission of duplicate travel voucher and submitting false student test scores to receive fraudulent salary payments from the Research Grant.

Superintendent, Assistant Dean and Professor were indicted for conspiracy to commit Wire Fraud and Theft of Grant Funds related to the false salary payments from the NSF and DoEd Grants.

Convictions and Sentencing

Superintendent plead guilty to two counts of Wire Fraud, one related to the TN research grant and one related to the CA NSF and DoED grants.

Superintendent was sentenced to 10 months confinement, 3 years parole, and ordered to pay $325,000 in restitution.

Assistant Dean and Professor plead guilty to submitting False Statements and sentenced to 5 years supervised probation.

All ordered not to work in Education.
Cost of this Case

CA university paid contractor $130,000 to review grant accounts; determined $800,000 was wrongfully spent from various grants; returned $264,000 to NSF.

PI from TSU Research Grant: all time & funds expended from 2006 was wasted.

Investigation collected over 300,000 documents from 28 different institutions.

Fraud by Admin/Support

Georgia Tech P-Card Cases
Case 1 – Program Coordinator – Gift cards purchased with P-Card
Case 2 – Center Accountant – Purchases from Internet vendor with P-Card
Vague receipts submitted by the P-Card users and many receipts looked similar

Both Subjects resigned during initial Investigation by Internal Audit
OIG & Internal Audit found the Coordinator misused P-Card

- Gift cards from Walmart/Target/Sams Club
- Personal cell phone and cable TV service
- Auto repairs and insurance
- Grocery Stores near home address
- Tuition/parking fees at another university
- Diamond ring ($1334) from Amazon.COM
- Submitted questionable check request

Coordinator provided written confession to NSF-OIG Agents

- Fraud started 6 months after employment
- Over 1000 personal purchases made from more than 65 different vendors
- NSF/State/Private accounts fraudulently charged for personal purchases
- Submitted false check request for $4865
- Over $173,000 fraudulently diverted.

State and Federal prosecutors briefed.
OIG & Internal Audit found the Accountant misused P-Card

- Over 3800 personal purchases made from more than 15 different vendors over 5 yrs
- Over 1900 transactions through the institution’s financial system
- Over 30 different accounts (NSF/State/Private) fraudulently charged
- Over $316,000 fraudulently divert

Concealment of Fraudulent Activities

- Majority of items shipped to home address
- Lied to supervisors and co-workers
- Forged the supervisor’s signature on P-Card statement review documents
- Created false invoices
- Manipulation of the institution’s accounting system
Specific Items over $1000

- Poulan Lawn Tractor - $1099 – transferred 3 times in 3 months
- HP Pavilion Notebook PC - $1023 – transferred 3 times in 4 months
- BUNN Ultra-2 Drink System - $2134 – transferred 3 times in 4 months

Manipulation of accounting system
Fake Receipt

What was really bought
FBI & OIG Seized from Home

- 5 flat screen TVs (3 with built in DVD player)
- 5 computers (2 desk tops and 3 laptops)
- 5 digital cameras (2 in original boxes)
- Poulan Lawn Tractor (tools/lawn equipment)
- Multimedia Projector/Wall Projection Screen
- Bunn Frozen Drink System
- Yamaha Wave Runner III

Results P-Card Investigations

- Guilty Plea by Center Accountant to 22 counts of Federal Indictment
  - Sentenced 32 months prison/3 yrs probation
  - $316,000 Restitution/$2200 fines-assessment
- Guilty Plea by Program Coordinator to State Criminal Indictment for Fraud
  - Withdrew initial negotiated Plea
  - Sentenced to serve 10 years prison/10 yrs supervised probation
Detection of Fraud Schemes

Identify Risk Areas

- Tone at the Top – “Look the other way?”
- Who has Approval Authority, Subordinates?
- Conflict of Interest Situations, ownership of private companies doing business with institution
- Method to handle employee concerns of Fraud and abuse; Hotline – anonymous or not.
- Run rate reports, expenditures reports, especially in the last 6 weeks of grant or project.
A Compliance Resource for UNC-CH Employees:

The Compliance Line is an option for making a confidential report using either the internet or a telephone line to help the campus community identify and address compliance concerns about financial, research, HIPAA or Environment, Health and Safety ("EHS") matters on campus in a positive, constructive environment.

This internet and telephone reporting service is not maintained on the University’s systems and is not maintained by University employees. Reports can be filed anonymously and the reports are held securely and confidentially on the external systems.

EthicsPoint, based in Portland, Oregon, is the commercial service provider for the University’s Compliance Line.

Compliance Hotline
Telephone Access: 1-866-294-8688
For more information about the Compliance Hotline go to:
http://www.unc.edu/depts/legal/faq.html#f