

## VIGNETTES—Fraud Conducted by Executive Branch State Employees in FY 2013-2014

1. The Internal Audit Department of a state agency identified an employee's misuse of funds on a purchase card account during an unrelated audit. The matter was referred to law enforcement, which resulted in the employee's job termination and repayment of the funds. The internal control weakness identified was the lack of supporting documentation for the purchases. Total fraud loss identified: \$10,170.03.
2. A supervisor in a state agency manipulated an accounts payable system which resulted in the embezzlement of agency receipts. The fraud was detected by a Quality Assurance Reviewer who was following up on a transaction that had kicked out as an error in the system. A review of the designated "error correction" account for other non-erroneous transactions was discovered. This designated "error correction" account was controlled by the subject. The computer system lacked control features such as: automated deposit reports, dual controls, or higher level supervisory reviews. The supervisor was terminated from employment and prosecuted by law enforcement. Internal control weaknesses identified included the lack of dual control features, higher level of supervisory review, and antiquated computer system features. Total fraud loss identified: \$28,044.50.
3. A state agency received information from its support services staff during a routine audit and review of gasoline credit card charges, which identified questionable transactions made with the state fleet management gas card. The transactions were flagged and all available video surveillance footage and agency logs were reviewed. This investigation determined that no evidence existed which would lead the state agency to conclude any illegal use of the fleet card had occurred. However, during the course of this internal review the subject was terminated for violation of other state agency policies and procedures. Internal control weaknesses determined there was insufficient supervisory oversight and control of state vehicle use by the agency employees. Total fraud loss identified: \$110.98.
4. An employee for a state agency was alleged to have stolen an \$8,000 voucher intended for a client's use in a home ownership program. This allegation was initiated from an internal agency department based upon the complainant's statements. The matter was investigated both internally and by local law enforcement. It was determined by local law enforcement there was no validity to the allegation, resulting in the closure of the investigation. No internal control weakness was identified. Total fraud loss identified: \$0.00.
5. The Internal Audit Department of a state agency received an internal email which identified fraudulent purchase card charges to UPS in 2010, which had been sent to collections. No subject was identified and the charges were paid in full by the agency. Internal control weakness identified was the lack of approved documentation for the purchase. Total fraud loss identified: \$196.82.
6. A state agency identified the misuse of a state vehicle and a fleet management gas card. After staying late a few days in a row, the supervisor noticed the state car had not been returned to the agency after use by the employee. The supervisor was aware the employee had enough time to return the vehicle at the conclusion of the employee's work day. The supervisor met with the employee after the second noticed occurrence and discussed the car policy and returning the car in a timely manner. The matter was referred to SLED and the Solicitor's Office, but prosecution was declined. Internal control weakness identified was lack of efficient

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supervision of the employee and the vehicle charge-out/return process. Total fraud loss identified: \$0.00.

7. An employee of a state agency was charged with theft of funds when the employee deposited agency receipts into a personal bank account in the amount of \$3,195.00. The agency's Internal Audit Department was notified by the business officer of the affected area and an internal investigation was initiated. The employee was terminated from employment and the matter was referred to local law enforcement for prosecution. This matter is an ongoing investigation. Internal control weakness identified was insufficient controls over incoming receipts and checks. Total fraud loss identified: \$3,195.00.
8. A financial services director at a state agency contacted its Internal Audit Department and reported missing funds in a financial services account. No further work was conducted in this matter due to small dollar loss. Internal control weakness identified was cash was not reconciled in a timely manner. Total fraud loss identified: \$20.00.
9. A financial services director at a state agency contacted its Internal Audit Department to report that a financial services account was missing a deposit of \$1,550.00. An internal review was initiated and the employee was identified and terminated from employment. The matter was referred to law enforcement and the employee was charged and arrested. This is an ongoing investigation. Internal control weakness identified was the lack of timely reconciliation and accountability when funds are "handed off" between staff members. Total fraud loss identified: \$1,550.00.
10. An anonymous letter alleging the theft of state agency equipment for personal use and the conversion of assets for funds received by the state agency. A criminal investigation was initiated by law enforcement, along with an agency internal audit. The results of the investigation, interviews, and audit determined there was no validity to the complaint. The interviews resulted in the identification of the complainant who was a disgruntled spouse of one of the subjects who were going through a marital separation. No internal control weakness was identified. Total fraud loss identified: \$0.00.
11. Officials in the business and information technology departments of a state agency discovered suspicious and fraudulent invoices submitted by an employee for repayment on a purchase card account. An investigation was initiated which resulted in a referral to SLED and the Solicitor's Office. Subsequent interviews resulted in a confession by the subject and employment termination. The SIG conducted a forensic review of bank, EBay and PayPal records which culminated with the former employee entering a guilty plea to embezzlement by purchase card fraud. Internal control weaknesses identified were supervisory oversight deficiency, lack of inventory control and purchasing oversight. Total fraud loss identified: \$414,976.68.
12. A former employee's purchase card of a state agency was compromised for payment of a water bill with a local water authority in the amount of \$326.33. Internal audit review determined no connection between the former employee and the suspect address (water utilities account). The former employee was a temporary employee and the misuse of the purchase card was discovered during a post-employment audit. The agency believes there is no connection between the former employee and the suspect address. As a result, the agency stopped

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payment on the purchase card charge which resulted in a loss to the water authority. No internal control weakness was identified. Total fraud loss identified: \$326.33.

13. A mailroom employee of a state agency converted money orders, which contained a blank “payee” line, and inserted his/her name and deposited the money orders into a personal bank account. This matter was discovered by the state agency when an applicant inquired about the status of a license for which the applicant had remitted payment in the form of a money order. The matter was referred to SLED for investigation and it was determined that \$5,000 had been converted through this scheme over a two year period. The employee confessed to the theft and was subsequently charged with theft of funds, and terminated from employment. Internal control weaknesses identified were lack of efficient supervision and segregation of duties. Total fraud loss identified: \$5,000.00.
14. A confidential whistleblower reported that an employee at a state agency defrauded the agency by illegally obtaining financial aid for his/her ex-spouse and another relative. An investigation was initiated by local and federal law enforcement, which culminated with the employee admitting that on multiple occasions he/she knowingly overrode the financial system and subsequently authorized the ex-spouse and the relative to be awarded excess student loan funds for which they were ineligible. The employee was subsequently terminated. The case is ongoing. Internal control weaknesses identified were lack of efficient supervision and the ability to override the system. Total fraud loss identified: \$80,000.00.
15. A former employee of a state agency managed a grant program. A local school district contacted the state agency to report that the former employee may have received payment from the grant. This matter was referred to law enforcement and is currently ongoing. Internal control weakness identified was lack of efficient supervision of the grant program manager. Total fraud loss identified: \$0.00.
16. An executive at a state agency engaged in a series of schemes, abused his/her position of authority and conspired with an agency board member and multiple vendors to influence and corruptly benefit his/her self-interest. There were no missing state funds; however, the benefits were “off-book” through kickbacks from vendors which never leaves an audit trail. This investigation was initiated by law enforcement, which culminated in the prosecution and conviction of the executive. In this case, which is typical of government corruption, the corruption was detectable by co-workers who witnessed snippets of the corruption schemes that should have been reported but were not reported. Total fraud loss identified: \$0.00.