

Office of the State Inspector General

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Financial Analysis and Investigative Support to Lander University

[UPDATE - FINAL ADJUDICATION: On 8/14/2014, subject pled guilty in General Sessions Court - Greenwood County (Case #2014GS2401432), to one count of embezzlement of public funds of more than \$10,000 and was sentenced to ten years in prison, which was suspended to five years of probation, 400 hours of community service, and the surrender of his State retirement account as part of a restitution agreement. See link for additional information: <http://www.gwdtoday.com/main.asp?SectionID=2&SubSectionID=27&ArticleID=31046>]

Case# 2014-696-I

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I. Administrative

The State Inspector General (SIG) is not an adjudicative or recommending authority. The SIG prepares an investigative summary reporting the facts based on the collection of evidence primarily through interview and record review. As part of its mandate, the SIG provides investigative and financial analysis support to state-wide agencies pertaining to fraud allegations upon request by the particular state agency. The SIG prepares an investigative summary and provides this to the appropriate authority, which in this case is the Vice President (VP) for Business and Administration, Lander University (LU); the Chief of Police, LU; and the Chief of the State Law Enforcement Division (SLED), for any further action deemed appropriate.

The SIG considers this investigative analysis to be LAW ENFORCEMENT SENSITIVE and the property of LU and SLED. As such, all Freedom of Information Act (FOIA) inquiries received by the SIG will be forwarded to LU and SLED. Each agency will have all of the SIG's records collected during the course of its investigative analysis, and will be in a position to determine when documents are releasable under FOIA.

The SIG's points of contact during this investigative support project were VP Gary McCombs, LU; Eddie Briggs, Chief of Police, LU; Benjamin Thomas, Assistant Chief, SLED; Scott Sorenson, Special Agent, SLED; and Robbie Hendricks, Supervisory Special Agent, SLED. The SIG extends its appreciation for the cooperation and support provided by the LU staff and SLED during the SIG's participation in this matter.

II. Investigative Predicate

On 6/24/2014, Gary McCombs, VP for Business and Administration, LU, requested the SIG's assistance in providing investigative support and financial analysis to the LU police and SLED as part of a pending criminal investigation of former Information Technology (IT) employee, Francis Wayne McMahan. Specifically, on 11/12/2013, LU police initiated an investigation into McMahan's misappropriation of IT equipment and other LU inventory for personal resale through the use of his, and other unwitting LU staff with assigned procurement cards (P-cards). Based upon this request, the SIG initiated its investigative support and financial analysis on 6/27/2014.

III. State Criminal Statutes

The investigation and the financial analysis conducted in this matter identified two primary state criminal statutes were violated; which are found in the 1976 S.C. Code of Laws, as amended, Section 16-13-210 "Embezzlement of Public Funds;" and Section 16-13-30 "Petit larceny; grand larceny."

IV. SIG Investigator Backgrounds

Brian D. Lamkin, SIG investigator, served as a Special Agent with the Federal Bureau of Investigation (FBI) for more than 25 years, to include two Special Agent in Charge assignments in Columbia, South Carolina and Atlanta, Georgia. During his FBI tenure, Lamkin was assigned to investigate complex white collar crime (WCC) and financial crimes matters. Among his FBI assignments, Lamkin was assigned to the Dallas Bank Fraud Task Force, which focused on the nation's savings and loan failure crisis; and to the Dallas Asset Forfeiture/Money Laundering team. Lamkin has held various WCC supervisory positions within the FBI, to include the senior executive position of Chief of the FBI's Financial Crimes Program. Lamkin is a Certified Fraud Examiner, as recognized by the Association of Certified Fraud Examiners; and has written articles on financial fraud schemes for the American Bankers Association, and Butterworths Journal of International Banking and Financial Law.

Martin Brown, SIG investigator, served as a Special Agent with the FBI for more than 30 years. Among his FBI assignments, Brown served as Supervisory Special Agent of the Greenville, South Carolina office where he focused many of his efforts on public corruption and financial crimes. Upon his retirement from the FBI, Brown served as Chief of Police for the city of Anderson, South Carolina for five years.

V. SIG Summary Analysis and Conclusion

The SIG investigative analysis was conducted in three stages: (1) a review of a video-taped interview/confession of McMahan by LU Police Chief Briggs on 12/3/2013; (2) a review and analysis of LU procurement records and investigative file documents acquired during the course of the LU investigation (LU-2013-678), including documents subpoenaed from EBay and PayPal; and (3) the interview of McMahan by the SIG on 7/16/2014.

Through this investigative process three fraud schemes emerged: (1) the Kristine Reynolds phony invoice scheme; (2) the LU purchase - EBay resale scheme; and (3) McMahan's theft and resale of LU inventory through other means. These schemes resulted in the loss of funds and LU inventory in the amount of **\$414,976.68**. This figure is comprised of 268 transactions during the period of 3/3/2008 through 12/9/2013.

A. Scheme One: The Kristine Reynolds phony invoice scheme

The LU police initiated its investigation on 11/12/2013, based upon a complaint from Robin Lawrence, Director of IT Services, LU, when she identified a payment to a business (PayPal KKopie1) on her LU P-card, which was a previously unknown vendor to her. Subsequently, a Myrtle Beach, South Carolina address was identified for the vendor, as it had been determined this purchase was made at the request of

McMahan. The vendor was eventually identified as Kristine Marie Reynolds, aka, “KKopie1,” doing business as Reynolds Refurbished Electronics (RRE).

While visiting the Myrtle Beach area, Mary McDaniel, Director of Procurement Services, LU, volunteered to visually inspect the address listed for RRE. This property was identified as a small single family residence in a run-down section of Myrtle Beach. McDaniel reported this information back to the LU police. The investigation was expanded to identify other possible payments to “KKopie1” through other LU P-card accounts. The investigation focused on five primary LU P-card accounts: (1) Wayne McMahan; (2) Robin Lawrence; (3) Melissa Thompson, administrative assistant to the VP of Student Affairs; (4) Lois Amick, P-card administrator; and (5) Mary McDaniel. Three P-card accounts revealed multiple transactions had occurred with “KKopie1” at McMahan’s request.

On 12/3/2013, Chief Briggs interviewed McMahan which resulted in McMahan’s confession to submitting fraudulent invoices for payment to Reynolds through the use of LU P-cards. McMahan also admitted to instructing Reynolds on how to open a PayPal account under the pseudonym “KKopie1” and utilizing the RRE business name. Subsequent to this interview, Chief Briggs received the subpoenaed EBay and PayPal records for McMahan and Reynolds for further review and analysis.

The SIG review of McMahan’s video-taped confession and the Reynolds records determined that between 3/27/2013 and 11/6/2013, 24 separate transactions occurred wherein phony invoices were generated and submitted for payment to “KKopie1.” These payments, totaling \$54,636.93, were made at the request of McMahan and encompassed the use of three LU P-card accounts (McMahan, Thompson, and Lawrence) for this period.

Subsequent to this record analysis, the SIG attempted to locate and interview Reynolds. The SIG made contact with the Surfside, South Carolina Police Department, which had maintained an investigative file on Reynolds from prior arrests in Surfside and Myrtle Beach for prostitution, in order to locate and interview Reynolds. These records were presented to the SIG for inclusion in this matter. Logical investigative steps were undertaken by the SIG to locate Reynolds, to include making contact directly with Reynolds’ last known addresses, telephone numbers, and legal counsel. These attempts were unsuccessful.

B. Scheme Two: The Lander University purchase - EBay resale scheme

Through a review of the Reynolds records, LU P-card records, along with the subpoenaed EBay and PayPal records, the SIG began an analysis of the items sold on EBay by McMahan. The EBay records covered the period of 12/12/2009 to 12/6/2013. During this four year period, McMahan sold 502 items on EBay under the pseudonym “Biltmoreman.” The total amount of sales generated by McMahan, which accrued to his benefit, was \$182,466.02.

A closer review of the items sold identified a pattern of selling items which carried a high dollar retail cost; such as EVGA graphics cards, Western Digital hard drives, Intel Core processors, sound system equipment, and other expensive audio/visual equipment. By selling these items at a significantly discounted price, McMahan could sell the items quickly. The SIG discussed this observation with Lawrence at which time she stated that she had previously identified questionable purchases specifically associated with EVGA graphics cards, Intel i7 processors, Tascam audio, and other sound system equipment, which were not normally purchased by LU. From these observations, the SIG began reconciling the sold EBay items to the purchases made on the LU P-cards.

EBay sales typically have a sale creation date, and a sale start/end period in which items are sold. The SIG's reconciliation process of EBay sales and LU purchases began by identifying purchases on or within a day of the sale creation date. This included using the item description and the number of items purchased and listed for sale. The SIG had determined that in addition to the use of his own P-card, McMahan engaged the unwitting participation of other LU P-card account holders (Thompson, Lawrence, and Amick) to execute this fraud scheme.

This reconciliation analysis further identified that 394 (78%) of the 502 EBay items sold had originated from purchases submitted for payment by McMahan through these P-cards during this four-year period. These 394 EBay transactions totaled \$155,621.29 accruing to McMahan's benefit. The per item cost, paid through the use of the LU P-cards as determined by the corresponding invoice, totaled \$200,640.31 for the reconciled items. This equates to a 22.5% average discount given by McMahan to each EBay purchaser.

C. Scheme Three: McMahan's sale of LU inventory through other means

McMahan's fictitious RRE scheme (\$54,636.93) and the sale of LU inventory on EBay scheme (\$200,640.31) totaled losses to LU of \$255,277.24 on P-cards. The SIG review determined the McDaniel P-card had not been utilized in the first two schemes and contained no suspicious transactions. A review of the items in these schemes along with a list of suspicious type items identified by LU management on the four remaining P-cards identified a total of \$471,358.09 of suspected fraud on these P-cards. The total suspected fraud (\$471,358.09) on the P-cards, less the P-card schemes identified in the RRE and EBay schemes (\$255,277.24), left a residual \$216,080.85 in suspected fraud. This analysis, along with the exhibit references is contained in the below table:

Wayne McMahan Purchase Card Accounts	\$330,719.25
Melissa Thompson Purchase Card Accounts	\$106,843.94
Robin Lawrence Purchase Card Account	\$ 20,569.03
Lois Amick Purchase Card Account	\$ 13,225.87
Subtotal	\$471,358.09
RRE phony invoice scheme fraud loss on P-cards	<\$54,636.93>
LU-EBay sale scheme fraud loss on P-cards	<\$200,640.31>
Suspected additional fraud on P-cards	\$216,080.85

D. McMahan’s additional fraud from LU P-cards

On 7/16/2014, McMahan was interviewed by the SIG investigators and Chief Briggs. At that time, McMahan was presented with the initial SIG analysis for his review and comments. The interview was tape recorded and is included with this report. This interview resulted in McMahan stating that 99.99% of the EBay sales were fraudulently acquired through his use of LU P-cards, purchase orders, or taken directly out of the existing LU inventory and sold. This explains the 108 EBay sales not traceable to the P-cards reviewed. McMahan re-stated that all of the invoices associated with the Reynolds scheme were bogus, and that LU received no product in exchange for the payment. According to McMahan, the phony invoice scheme was simply a mechanism for generating money to give to Reynolds.

McMahan assisted the investigation by reviewing the EBay transaction log, as well as all of the questionable P-card transactions identified by the SIG. This included McMahan providing written notations on the documents. Through this process, McMahan self-identified an additional \$181,472.51 in fraudulent purchases. Consequently, the SIG was able to confirm a net total of **\$414,976.68** in fraudulent purchases for all EBay, Reynolds, and McMahan identified items. Due to a lack of documentation and clarity in McMahan’s recall on certain transactions, \$56,381.41 in questionable P-card purchases were deducted from the total suspected P-card fraud of \$471,358.09, which resulted in the net fraud loss of \$414,976.68.

While McMahan admitted to these additional fraud losses, the SIG was not able to reconcile all of these sales to the EBay records. The retention period for EBay records is four years. Seventeen of McMahan’s self-identified fraudulent purchases occurred prior to the availability of EBay record review period, totaling \$28,156.90. When questioned on this issue, McMahan stated that he only sold items on EBay under the pseudonym “Biltmoreman” and could not explain why the sales of these additional items could not be found in the EBay records. McMahan further provided that the 108 unreconciled items on the EBay transaction log may have come from existing inventory which he converted for sale, or from purchase order transactions. McMahan stated that other than Kristine Reynolds he did not utilize other EBay pseudonyms or individuals to assist him in the sale of LU inventory. McMahan further provided that he tried to avoid the use of purchase orders due to the higher level of scrutiny,

approval, and tracking of items. It should be noted the SIG was not presented with purchase orders as part of this review. Mahan stated that he had been engaged in this fraudulent scheme since the 2007 – 2008 time frame.

E. SIG Summary Conclusion

The fraud loss was \$414,976.68. It is composed of three schemes, where McMahan admitted conducting during his two interviews. \$255,277.24 (61%) of loss is corroborated with RRE invoice, EBay, and LU records. However, the residual \$159,699.44 gap of 108 items (39%) is corroborated only by the P-card purchase item consistent with the type of item involved in McMahan's schemes. How, and to what extent, McMahan converted these items into cash is unknown.