LEARNING OBJECTIVES

- Understand the differences between administrative and criminal investigations
- Identify and describe how parallel investigations may occur
- Explore the opportunities for coordination between the police and internal audit

ADMINISTRATIVE VS. CRIMINAL INVESTIGATIONS

**ADMINISTRATIVE**
- Allegations normally relate to improper governmental activity (IGA). (fiscal misconduct, procedural, serious violations of policy, etc.)
- Investigated by auditing professionals
- Develop theory and look for evidence to support it
- Determine if IGA has occurred
- Review internal controls/identify weaknesses

**CRIMINAL**
- Allegations indicate criminal activity (theft, misappropriation of assets, violation of law, etc.)
- Investigated by the police
- Gather facts then develop fraud theory
- Collect information/evidence to determine if a crime has been committed
PARALLEL INVESTIGATIONS

Activities Performed by the Police & Internal Audit

- Review documents
- Review policies and procedures
- Interview persons (different focus)

PARALLEL INVESTIGATIONS – ACTIVITIES PERFORMED SEPARATELY

ADMINISTRATIVE
- Advise of Administrative review (must cooperate)
- Interview
- Brief management
- Request records
- Workplace search
- Report to management

CRIMINAL
- Advise of Miranda
- Interrogate
- Brief prosecutors
- Subpoenas
- Search warrant
- Crime report
- Warrant for arrest

EXAMPLE OF COORDINATED CASE REIMBURSEMENT FRAUD

Personal Purchases on Corporate Travel and Entertainment Card
PERSONAL PURCHASES ON CORPORATE CARD

$120,000 in personal purchases over three year period
• Disneyland passes $950
• Las Vegas hotel pool bar $460
• Monthly tanning $60
• Auto repair/maintenance $490
• Ski lift tickets $260
• Knott's Berry Farm $253
• Limo rental $940
• Sears $980
• Car rental $1,025
• Hair salon $288

HOW DID SHE PAY FOR THE PERSONAL PURCHASES?
• Used corporate credit card for purchases, then submitted fraudulent PayQuest reimbursements to pay for the charges
• Fabricated receipts (some receipts found on the subject’s computer hard drive)
• Falsified corporate card transaction details by cutting/pasting details from US Bank online activity into Word.doc, then changed the details, like the amounts and merchant name

HOW DID SHE PAY FOR THE PERSONAL PURCHASES (CONT.)?
• Used PalCard transaction details/receipts as support for her PayQuest reimbursements
• Prepared her own PayQuest reimbursements, then forged the approval signature(s)
• Used department credit card machine to refund $49,000 to her corporate card account and personal ATM card/account
HOW FRAUD OCCURRED
POOR INTERNAL CONTROLS

- Lack of separation of duties (the subject made purchases and prepared reimbursements, and collected cash/credit cards and prepared deposit advices)
- No ledger reviews/reconciliations
- Lack of management oversight

COORDINATED EFFORTS

- Initial work performed by Internal Audit (reviewed corporate card statements and reimbursements)
- Briefed management (whistleblower triage group – EVC, Campus Counsel, Police, Human Resources, etc.) before interviewing the subject
- Had Information Technology image the subject’s computer hard-drive without her knowledge
- Interviewed the subject with Human Resources present (subject was immediately put on investigatory leave, resigned the next morning)

COORDINATED EFFORTS (CONT.)

- UC Irvine Police Detective and Internal Audit met to discuss the details of the case
- It was determined that Internal Audit would work as an agent for the Police
- Internal Audit performed analysis on Police seized documents
- Regular meetings were held between the Police and Internal Audit to update detectives on the case
- The lead Police Detective and Internal Audit Manager testify in the preliminary hearing
TIPS & SUGGESTIONS

- Meet periodically
- Keep detailed notes
- Coordinate tasks
- Set up files by witness/subject
- Make duplicate files for prosecutors
- Cross reference

OUTCOME

- Subject pled guilty to multiple counts of fraud, grand theft by embezzlement, acts of forgery, and computer access/fraud
- Sentenced to one year in prison and five years probation/over $150K restitution

QUESTIONS?
High Art; Low Value: How a Connoisseur Became a Convict

UCLA Audit & Advisory Services and the UCLA Police Department

Subject: Assistant Vice Chancellor (AVC) of Communications

• WHAT HE DID:
  • USED $470,000 IN UNIVERSITY FUNDS TO PURCHASE
    • ART WORK
    • RARE PHOTOGRAPHS AND BOOKS
    • CUSTOM FURNITURE
    • ANTIQUES

52 VENDORS-200 INDIVIDUAL ITEMS

- GALLERIES
- MUSEUMS
- RARE BOOK DEALERS
- HIGH-END FURNITURE STORES

LOCATED IN: LOS ANGELES, CHICAGO, SAN FRANCISCO, PHILADELPHIA, AND NEW YORK
HOW HE DID IT

- HOODEWINKED THE VENDORS:
  - USED HIS PERSONAL CONTACTS AND REPUTATION AS A CONNOISSEUR
  - MADE PURCHASES AS A UNIVERSITY OFFICIAL
  - ARRANGED TO HAVE ACTUAL INVOICES MAILED OR FAXED TO HIS PERSONAL ATTENTION AT UCLA

HOW HE DID IT

- HOODEWINKED HIS SUBORDINATE (COMMUNICATIONS DEPT) STAFF WHO PROCESSED THE INVOICES ON-LINE:
  - AVC PREPARED BOGUS INVOICES
  - ALTERED/TRUNCATED THE VENDOR NAME AND LOGO
    - (e.g., FRANKLIN GALLERY BECAME "FRANKLIN DESIGN")
  - ALTERED THE NATURE OF THE PURCHASE
    - (ANTIQUE PHOTOS BECAME "PHOTOGRAPHY: UCLA GLOSSY QUARTERLY – SPRING 2012")

HOW HE DID IT

- CIRCUMVENTED CENTRAL PURCHASING AND A/P CONTROLS
  - ARTIFICIALLY SUBDIVIDED LARGER VENDOR INVOICES, ABUSED LOW VALUE PURCHASE THRESHOLD
  - PROCESSED "LOW VALUE" INVOICES WITHIN A FEW DAYS OF ONE ANOTHER
  - RELIED ON PERCEPTION THAT DEPARTMENT AND CENTRAL ADMINISTRATIVE STAFF WERE NOT SAVVY IN ARTS AND ANTIQUITIES
HOW AUDIT FOUND OUT

- PHONE CALL FROM FANCY FURNITURE STORE
- CFO USED TO BE AN AUDITOR
- CFO LIKED AUDITORS
- CFO ASKED FOR THE AUDIT DEPARTMENT

WHY THE CALL?

- CFO OBSERVED MISMATCH IN DESCRIPTION OF SERVICES
- AVC'S UNWITTING ASSISTANT FAXED VENDOR A LOW VALUE ORDER DESCRIBING "PUBLICATION AND DESIGN SERVICES"
- AVC WAS ACTUALLY PURCHASING A CHAISE LONGUE (FAINTING COUCH)
- CFO WANTED TO KNOW WHETHER HE SHOULD STILL MAKE THE COUCH

OVERVIEW OF INVESTIGATION: AUDIT & ADVISORY SERVICES (A&AS)

- INSIDE:
  - REVIEWED ON-LINE PURCHASING AND A/P ON-LINE RECORDS FOR COMMUNICATIONS DEPARTMENT,
  - "HUNCH WORK": IDENTIFIED SUSPICIOUS VENDOR NAMES, LOCATIONS, FREQUENCY, TIMING, AND AMOUNTS OF PAYMENTS
  - USED INTERNET TO LOCATE ACTUAL VENDORS, THEIR REAL NAMES, BUSINESS LINES
  - OBTAINED DOCUMENTS FROM UCLA A/P AND RECORDS MANAGEMENT (BOGUS INVOICES, LVO'S, CANCELLED CHECKS)
OVERVIEW OF INVESTIGATION: AUDIT & ADVISORY SERVICES (A&AS)

• OUTSIDE:
  □ CALLED THE VENDORS: “WE CAN’T FIND YOUR INVOICE(S) FOR THIS PERIOD OF TIME.”
  □ TRIED TO DEAL WITH A/R CLERKS (OWNERS MORE LIKELY TO CONTACT AVC)
  □ HAD LOS ANGELES AREA STOREFRONTS PHOTOGRAPHED

OVERVIEW OF INVESTIGATION: AUDIT & ADVISORY SERVICES (A&AS)

• COMPiled EVIDENCE FOLDERS FOR EACH OF THE 52 VENDORS
  ▪ COPIES OF ACTUAL VENDOR INVOICE(S) TO AVC – TRUE DESCRIPTION OF HIS PURCHASES
  ▪ PRINT-OUTS OF VENDOR WEBSITES AND/OR PHOTOS SHOWING TRUE NATURE OF THEIR BUSINESSES (GALLERIES, ANTIQUARIAN BOOKSELLERS, TAXIDERMISTS)
  ▪ BOGUS INVOICES THAT THE AVC FABRICATED AND SUBMITTED FOR PROCESSING THROUGH UCLA COMMUNICATIONS DEPARTMENT AND UCLA CENTRAL A/P
  ▪ ORIGINAL, CANCELLED UCLA CHECKS WITH VENDORS’ ENDORSEMENTS, DEPOSITORY INFO

OVERVIEW OF INVESTIGATION: AUDIT & ADVISORY SERVICES (A&AS)

INTERVIEW OF AVC - DAY 1:

• PREPARED A&AS CONFERENCE ROOM TABLE TO DISPLAY:
  ▪ 52 VENDOR FOLDERS
  ▪ OPENED PHOTO ALBUMS

• AVC APPEARED AT A&AS (AT DIRECTION OF HIS BOSS)
  ▪ LOOKED AT CONFERENCE ROOM TABLE
  ▪ ANNOUNCED HE WOULD CALL HIS ATTORNEY
  ▪ LEFT A&AS OFFICES
OVERVIEW OF INVESTIGATION: A&AS

INTERVIEW OF AVC: DAY 2

❖ AVC RETURNED TO A&AS OFFICES

❖ ON ADVICE OF HIS ATTORNEY AVC:
  • ADMITTED TO THE ENTIRETY OF THE SCHEME
  • AGREED TO COOPERATE

OVERVIEW OF INVESTIGATION: A&AS

➢ PRE-EXISTING, COOPERATIVE RELATIONSHIP BASED ON PRIOR CASES

➢ SEPARATE, WELL-DEFINED ROLES WERE NEVER CROSSED
  • POLICE DID NOT DIRECT OR ADVISE A&AS’S INVESTIGATION
  • ENTIRE INVESTIGATION, INCLUDING INTERVIEW OF AVC, COMPLETED BY A&AS BEFORE BEING HANDED TO UCLA POLICE

WHAT WENT RIGHT: A&AS AND THE UCLA POLICE

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WHAT WENT RIGHT: A&AS AND THE UCLA POLICE

EARLY ON: A&AS INFORMED POLICE DETECTIVES OF THEIR INVESTIGATION OF SUSPECTED CRIMINALITY INVOLVING:

- A HIGH PROFILE UCLA EMPLOYEE
- A SIGNIFICANT DOLLAR AMOUNT
- AN AGGRESSIVE DEFENSE ATTORNEY WHO MONITORED THE INVESTIGATION AND ADVISED HIS CLIENT, THE AVC
- A UCLA VICE CHANCELLOR (VC) WHO WAS RESPONSIVE TO THE AVC’S ATTORNEY

WHAT WENT RIGHT: A&AS AND THE UCLA POLICE

BEYOND THE A&AS INVESTIGATION:

- UCLA POLICE INFORMED A&AS OF OBSTACLES ENCOUNTERED DURING CASE FILING, WHERE AUDITORS COULD PROVIDE SUPPORT

WHAT WENT WRONG: “THE DEAL”

IN EXCHANGE FOR AVC’S CONFESSION AND COOPERATION, UCLA VC AND THE AVC’S ATTORNEY DEVELOPED A “RESTITUTION AGREEMENT”

- AVC AGREED TO TRANSFER POSSESSION OF THE 200+ ITEMS HE PURCHASED OVER TO UCLA
- UCLA AGREED TO SELL THE ITEMS AND APPLY THE RECOVERED AMOUNTS TO OFFSET THE $470,000
A TEAM OF TWO UCLA MUSEUM CURATORS, AN AUDITOR, AND A 
SPECIALY-ASSIGNED PROJECT MANAGER (PM) MEET THE AVC 
AND HIS 200 PURCHASES AT HIS PUBLIC STORAGE LOCKER

- CURATORS AND PM PHOTOGRAPHED, AUDITOR 
CATALOGUED, MOVERS LOADED GOODS ONTO MOVERS' 
TRUCK
- AVC SIGNED OFF ON EACH CATALOGUED ITEM AT STORAGE 
LOCKER AND AS IT WAS LOADED ONTO TRUCK
- AUDITOR PROVIDED PHOTO OF SIGNED CATALOG LIST TO 
AVC AND PM AND RETAINED ORIGINAL

AVC ACCOMPANIED THE TEAM – IN TRUCK - TO SPECIAL HOLDING ROOM ON CAMPUS 
WHERE THE 200 ITEMS WERE OFFLOADED

- AUDITOR OBTAINED AVC’S SIGNATURE AS EACH ITEM WAS PLACED IN THE HOLDING 
ROOM AND OUTSIDE AS AVC OBSERVED THE CLOSING OF THE DOOR.

- SECURED, OFFSET KEYS WERE HELD BY TWO UCLA OFFICIALS NOT CONNECTED 
WITH INVESTIGATION

PM ARRANGED FOR SALE OF THE ITEMS THROUGH AUCTION HOUSES

- UCLA AUDITOR REQUIRED TO “KEEP THE BOOKS” ON THE SALES PROCEEDS AND 
“OFFSET” FOR EACH OF 200 ITEMS
- SOME VENDORS AGREED TO TAKE BACK THE ITEMS AT OR BELOW THE AVC’S 
PURCHASE PRICE

AVC’S ATTORNEY CRITICIZED THE PM FOR NOT SEEKING MORE MONEY FOR THE ITEMS; 
CLAIMED THAT THE DEAL WAS BEING BREACHED BY UCLA

DA ASSERTED THAT RESTITUTION AGREEMENT CREATED A 
CIVIL DEBT RATHER THAN A CRIMINAL MATTER (ESP. 
BECAUSE UCLA CARRIED THE BURDEN OF SELLING THE 
GOODS)

UCLA VC ASSERTED HIS PERSONAL BELIEF THAT THE 
UNIVERSITY IS “SILENT” ON THE SUBJECT OF PROSECUTION

VC OPINED THAT PROSECUTION IS STRICTLY THE PROVINCE 
OF THE POLICE AND NOT THE UNIVERSITY

POTENTIALLY AFFECTED UCLA POLICE CREDIBILITY WITH THE 
DA
WHY THE DA AGREED TO PROSECUTE

- A LOT OF MONEY
- POLICE CONVINCED DA THE UNIVERSITY WOULD SUPPORT PROSECUTION
- "GOOD" CASE

WHAT WENT WRONG: "THE DEAL" BROKE THE CHAIN OF CUSTODY

POLICE PREPARE CASE FOR JURY TRIAL REGARDLESS OF PLEADINGS

POLICE ARE TRAINED AND CERTIFIED IN CHAIN-OF-CUSTODY PROCEDURES WHERE PROPERTY IS INVOLVED.

POLICE TESTIFY AS CHAIN-OF-CUSTODY EXPERTS IN A JURY TRIAL.

AUDITORS USE COMMON SENSE AND SOUND CONTROL PROCEDURES BUT ARE NOT REGARDED AS EXPERTS IN PROPERTY CHAIN OF CUSTODY

WHAT WENT WRONG: THE DEAL BROKE THE CHAIN OF CUSTODY

- RESTITUTION AGREEMENT FORCED UCLA TO MAINTAIN THE 200 ITEMS OUTSIDE OF POLICE-SECURED PROPERTY ROOM TO FACILITATE THE SALE.
- DEFENSE ATTORNEY COULD HAVE CONVINCED JURY THAT PROPER CHAIN OF CUSTODY WAS NOT MAINTAINED DURING THE SALE PERIOD.
- AUDITOR’S, PROJECT MANAGER’S, CURATORS’ TESTIMONY REGARDING TREATMENT OF PROPERTY WOULD BE IMPUGNED IN COURT.
OTHER OBSTACLES: DA WANTED 52 VENDORS TO AGREE TO TESTIFY

- Some vendors were protective of their exclusive clients and the confidentiality of the purchases
- Would not speak to the detective “without a subpoena”
- Police asked A&AS to contact the vendors
  A&AS were not agents of the police:
  Auditor already had spoken with vendors during investigation and asked for their help with mostly positive results

OTHER OBSTACLES: DA WANTED 52 VENDORS TO IDENTIFY THE AVC

- UCLA police had to go “door to door” in the Los Angeles area with a “photo line-up”
- Out-of-town vendors had never seen the AVC in person – all transactions were by phone, letter, and fax
  - UCLA police convinced DA that the “paper trail” was sufficient to document their interactions for trial purposes

HOW THE CASE ENDED

- AVC was terminated from his position at UCLA
- AVC entered a guilty plea to charges of embezzlement
- Judge sentenced AVC to house arrest with an electronic ankle bracelet for one year