

UNIVERSITY OF CALIFORNIA
COMPLIANCE AND AUDIT SYMPOSIUM

**Investigations Panel
Coordination Between Police
and Internal Audit**

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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

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**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



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PARALLEL INVESTIGATIONS



Activities Performed by the Police & Internal Audit

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

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PARALLEL INVESTIGATIONS – ACTIVITIES PERFORMED SEPARATELY

<p>ADMINISTRATIVE</p> <ul style="list-style-type: none"> ▪ Advise of Administrative review (must cooperate) ▪ Interview ▪ Brief management ▪ Request records ▪ Workplace search ▪ Report to management 	<p>CRIMINAL</p> <ul style="list-style-type: none"> ▪ Advise of Miranda ▪ Interrogate ▪ Brief prosecutors ▪ Subpoenas ▪ Search warrant ▪ Crime report ▪ Warrant for arrest
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EXAMPLE OF COORDINATED CASE REIMBURSEMENT FRAUD

Personal Purchases on Corporate Travel and Entertainment Card



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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 \$1,525
- 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

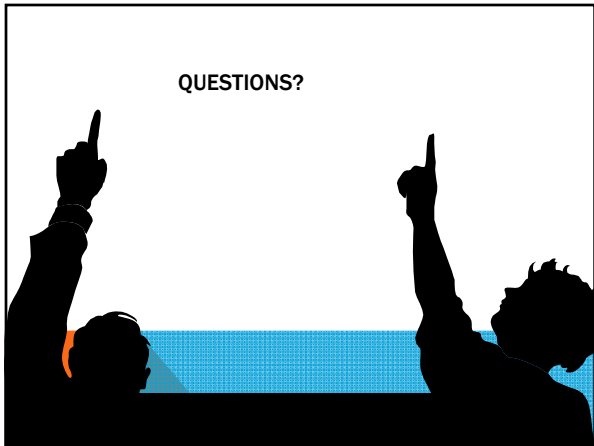


OUTCOME

- 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?



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**High Art; Low Value: How
a Connoisseur Became a
Convict**

UCLA Audit & Advisory Services
and the UCLA Police Department

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**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

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52 VENDORS-200 INDIVIDUAL ITEMS

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

LOCATED IN: LOS ANGELES, CHICAGO,
SAN FRANCISCO, PHILDELPHIA, AND
NEW YORK

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HOW HE DID IT

- HOODWINKED 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

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HOW HE DID IT

- HOODWINKED 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
 - (ANTIQUÉ PHOTOS BECAME "PHOTOGRAPHY: UCLA GLOSSY QUARTERLY – SPRING 2012)

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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

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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

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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

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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)

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

- 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

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

- 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

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

- INTERVIEW OF AVC - DAY 1:
- PREPARED A&S CONFERENCE ROOM TABLE TO DISPLAY:
 - 52 VENDOR FOLDERS
 - OPENED PHOTO ALBUMS
 - AVC APPEARED AT A&S (AT DIRECTION OF HIS BOSS)
 - LOOKED AT CONFERENCE ROOM TABLE
 - ANNOUNCED HE WOULD CALL HIS ATTORNEY
 - LEFT A&S OFFICES

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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

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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

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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

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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

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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

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WHAT WENT WRONG: "THE DEAL":

AN AUDITOR'S NIGHTMARE BEGINS

- A TEAM OF TWO UCLA MUSEUM CURATORS, AN AUDITOR, AND A SPECIALLY-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

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WHAT WENT WRONG: "THE DEAL"

- 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

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WHAT WENT WRONG: DA SAID "WHEEL AND DEAL" OR PROSECUTE

- 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

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WHY THE DA AGREED TO PROSECUTE

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

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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

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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.

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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

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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.

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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
