**Reporting and Investigating Improper Governmental Activities**

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**Agenda/Topics to Be Covered**

- Importance of your role
- Who Investigates What?
- UC Whistleblower Policies
- Do’s and Don’ts
- Exercising Judgment
- Signs of Fraud
ASSOCIATION OF FRAUD EXAMINERS’ CONCLUSION ON DETECTING FRAUD

“Relatively few fraud and abuse offenses are discovered through routine audits. Most fraud is uncovered as a result of tips and complaints from other employees.”

Source: Association of Certified Fraud Examiners, 1996

Investigation Activities
The charts below display the sources and complaint methods of the 120 new investigations opened in FY07.

**Chart 10**

**Sources of UC Investigations - FY07**

- UC Employee: 49%
- UC Student: 2%
- UC Police: 2%
- UC Supervisor/Manager: 17%
- Unidentified: 12%
- Outside Agency: 3%
- UC Senior Manager/Regent: 4%
- General Public: 3%
- Vendor/Contractor: 3%
- Audit: 3%
- Other: 2%

**Chart 11**

**Complaint Methods FY07**

- Identified Reporter - Non UC Hotline (79): 66%
- Anonymous - UC Hotline (13): 10%
- Identified Reporter - UC Hotline (16): 13%
- Anonymous - Non UC Hotline (16): 11%
The charts below display the types of allegations related to the 120 investigations opened in FY07, and the outcome of 142 investigations that closed in FY07.

**Chart 12**

**Outcomes - Completed FY07 Investigations**

<table>
<thead>
<tr>
<th></th>
<th>Anonymous</th>
<th>Identified</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inconclusive</td>
<td>38%</td>
<td>40%</td>
<td>40%</td>
</tr>
<tr>
<td>Not Substantiated</td>
<td>19%</td>
<td>41%</td>
<td>43%</td>
</tr>
<tr>
<td>Substantiated</td>
<td>50%</td>
<td>41%</td>
<td>43%</td>
</tr>
</tbody>
</table>

**Chart 13**

**Types of FY07 IGA Cases**

- Improper use of UC Resources: 31%
- Fraud/Embezzlement - other: 7%
- Falsification of University records: 8%
- Conflict of Interest: 9%
- Misfeasance and waste: 7%
- Missing/Unaccountable assets: 3%
- Payroll/Time Charge abuse: 10%
- Theft/Embezzlement: 16%
- Abuse of Authority, bribery, kickbacks: 9%
Who Performs Investigations at UC?

- Academic Personnel
- Animal Research Office
- Disability Coordinator
- Environmental Health & Safety
- Health Sciences Compliance Officer
- Human Resources:
  - EEOC
  - Labor Relations
  - HR
- Risk Management
- Student Judicial Affairs
- Institutional Review Board
- Internal Audit
- Management Overseeing Ad Hoc external process
- Medical Staff
- NCAA Compliance Officer
- Office of the General Counsel
- Privilege & Tenure Committee
- Research Administration
- Retaliation Complaint Officer
- Title IX Officer
- University Police

AUDIT INVESTIGATION HOURS
Policy on Reporting and Investigating Allegations of Suspected Improper Governmental Activities

See Accompanying Overview of Policies

Policy Objective:

To adhere to the spirit of the state whistleblower statutes by creating 1) an environment in which suspected improprieties are brought forward without fear of retaliation and 2) a mechanism that ensures an appropriate institutional response to all suspected improprieties (not just whistleblower reports).
Definitions:

Protected disclosure* – any good faith communication that discloses or demonstrates an intention to disclose information that may evidence (1) an improper act or (2) any condition that may significantly threaten the health or safety of employees or the public if the disclosure or intention to disclose was made for the purpose of remedying that condition.

* Not just whistleblowers

Key Concepts & Guidance

- Can be oral
- Can be made to line management OR University official with implied authority to act
- If not recognized as such when made, danger of re-characterization as such when retaliation complaint is made
- “for the purpose of remedying that condition” should normally be assumed
- Malicious intent does not nullify potential validity of allegations
- Frivolous complaints may themselves bc IGA’s
Investigations Policy Overview

- Reporting Process=Funnel to LDO
  - Triage Process by LDO and I-Group
    - Investigation by appropriate jurisdictions
  OR
    - Referral to Management*
  - Communications, Coordination & Monitoring by LDO
  - Report to management, IGA source and others as appropriate

* If Investigation criteria not met—“if true” & probable cause.

WHAT TO DO WHEN CONFRONTED WITH WHISTLEBLOWER ALLEGATIONS?

DO’s

- Learn UC Policy and reporting channels
  - Locally Designated Official
  - Internal Audit
  - Human Resources
- Recognize and be alert to informal communications of allegations (protected disclosures)
- Contact Internal Audit and Human Resources before taking any personal action
- Act with speed
- Hold the matter confidential
WHAT TO DO WHEN CONFRONTED WITH WHISTLEBLOWER ALLEGATIONS?

DON’T’s

• Dismiss the matter out of hand
• Launch your own investigation
• Confront the accused or otherwise tip them off
• Disclose the matter to any unnecessary parties
• Try to settle or resolve the matter yourself
CASE STUDY ON REPORTING AND INVESTIGATING A SUSPECTED IMPROPER GOVERNMENTAL ACT
CASE STUDY #1

A large University department has a small unit that operates fairly autonomously with very limited oversight. The unit is involved in procuring services from outside vendors and re-charging various University organizations. A temporary employee was assigned to assist with a backlog problem. This employee reported to her supervisor that a substantial amount of expenses had not been re-charged. Senior department management became suspicious at this report and noticed that none of the bills for a particular vendor had been re-charged in over a year.

Case Study #1

Has a protected disclosure been made?

Does this reported matter meet the criteria for reporting to the LDO or other appropriate office?
CASE STUDY #1

- The senior department manager called the phone number listed on the invoices and got an answering machine. The call was not returned. The manager drove by the address on the invoice and found that it was a UPS mail box store. The manager called the Better Business Bureau and conducted a Dunn & Bradstreet search without finding any information on the business. The manager’s research found that the University had paid this vendor in excess of $250,000 over several years.

Case Study # 1

- Did the manager go too far?

- Is this matter now reportable to the LDO or other appropriate office?

- What should be the manager’s next steps?
Case Study # 1

• With this information, the senior manager and another department supervisor confronted the employee on a Friday afternoon about the vendor and the failure to re-charge for their services. The employee was perceived as being evasive but did not admit to any wrongdoing. She was told to be available on Monday to go over in detail the operation of her unit.

Case Study #1

• Should the manager and the supervisor have confronted the employee with questions about the vendor and the failure to re-charge for the billed expenses?

• Is this matter now reportable to the LDO or other appropriate office?
Case Study #1

On Monday, the department found that all of the records in the unit had been removed over the weekend and information had been deleted from the employee’s computer. The employee had left a message saying that she could be contacted through her attorney.

Then they called Internal Audit.

Avoiding Becoming the Subject of a Financial Investigation

- Document, Document, Document
- Disclose, Disclose, Disclose (fiat lux)
- Manage the Business Not Just the Program
- Don’t Falsify the Books and Records
Personal Tests

Wall Street Journal Test

Mom Test
Personal Tests
CAN YOU DO IT WITH SOMEONE WATCHING?

Personal Tests
Make It Policy Test
Signs of Fraud

CHARACTERISTICS OF CLASSIC EMBEZZLERS

• Usually work their crimes alone.
• Tend to be compulsive (gambling, abusing alcohol/drugs).
• Spend money freely (their own and/or the University’s).
CHARACTERISTICS OF CLASSIC EMBEZZLERS

- Work themselves into favor by utilizing their compulsiveness on-the-job.
- Rationalize their thefts by thinking they are merely “borrowing.”

CHARACTERISTICS OF CLASSIC EMBEZZLERS

- Tend to repeat and escalate their crime.
- Exploit weaknesses in internal controls to cover up their crimes.
- Have ready access on-the-job to cash or its equivalent.
There is a direct correlation between the employee’s age, education, position and the median loss due to fraud and abuse.” These factors often reflect the perpetrator’s position in the organization.

Source: Association of Certified Fraud Examiners, 2004

1996 CFE FRAUD STUDY
GENDER DEMOGRAPHICS

Who Steals?
Men - 75% Women - 25%

How Much?

Source: Association of Certified Fraud Examiners, 1996
2004 CFE FRAUD STUDY
GENDER DEMOGRAPHICS

Who Steals?
Men - 53%  Women - 47%

How Much?

Source: Association of Certified Fraud Examiners, 2004

DEMOGRAPHICS POSITION IN THE ORGANIZATION

Who Steals?
Executives - 12%  Managers - 34%  Employee - 67%

How Much?

Source: Association of Certified Fraud Examiners, 2004
DETECTING FRAUD RED FLAGS

• Lifestyle and Personality
• Organizational
• Financial Documents
• Accountability and Control

LIFESTYLE AND PERSONALITY RED FLAGS

• Wheeler/Dealer
• Dominating Personality
• Living Beyond Means
• Poor Money Management
• Dissatisfied Worker
• Unable to Relax
• No Vacations or Sick Time

• Close Customer/ Vendor Relationships
• Unusual or Change in Personality (alcohol, drugs, sleep, irritable, defensive, argumentative)
• Too Good to Be True Performance
• Excessive Overtime
ORGANIZATIONAL RED FLAGS

- No Communication of Expectations
- Too Much Trust in Key Employees
- Lack of Proper Authorization Procedures
- Lack of Attention to Detail
- Changes in Organizational Structure
- Tendency Toward Crisis Management

FINANCIAL DOCUMENT RED FLAGS

- Missing Documents
- Alteration of Documents
- Excessive Number of Voided Documents
- Documents Not Numerically Controlled
- Questionable Handwriting or Authorization
- Duplicate Payments
- Inordinate Use of Form 5’s
- Unusual Billing Addresses or Arrangements
- Address of Employee Same as Vendor
- Duplicate or “Home Made” Photocopied Invoices
ACCOUNTABILITY AND CONTROL
RED FLAGS

- Lack of Separation of Duties
- Lack of Physical Security and/or Key Control
- Weak Links in Chain of Controls and Accountability
- Missing Independent Checks on Performance
- Lax Management Style
- Poor System Design
- Inadequate Training

From Harvard Internal Audit Home Page

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