CASE STUDY 1

A small department has only two P-Cards; one for the director and one for the administrative assistant. The director was under the impression that all departmental purchases were made on his P-Card by his administrative assistant. He was told that the assistant never used her own card. Every month the director approved the expenses on his P-Card statement. The director knew that the administrative assistant was reconciling the Statement of Account. He was confident that expenses were appropriate.

For eighteen months, the administrative assistant was busy charging thousands of dollars of personal expenses such as garden supplies, dentist appointments, and groceries on her University P-Card. She was forging the approval signature of the director before submitting her P-Card statement.

The problem was discovered not because someone was reviewing expenses on the Statement of Activity, but because someone outside the department had a question about a deposit, which was not fraudulent. During the review of that transaction, some of the personal expenses were uncovered.

By the time the problem was discovered, nearly $100,000 had been spent by the employee on personal items. Most small departments would certainly know when the budget was overspent by thousands of dollars. In this case, the department was going through some physical renovations. An extra $8,000 or $9,000 each month wasn't cause for concern.

Could anything have been done to prevent this situation?

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CASE STUDY 2

A federal research grant provides $50,000 to purchase a computer system to run research equipment and data analysis specific to a data intensive research project. The grant also provides funds for a full time analyst to manage the system and do data analysis. The unit purchases the system with the funds and also uses the system to host the unit's email server, run various administrative applications, and provide shared data storage for other researchers and graduate students. The analyst, who is a computer whiz, also provides unit desk top support and is the computer system administrator.

What is the breakdown in internal controls?

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CASE STUDY 3

As a convenience to patients, a clinic begins stocking non-prescription drugs and medical supplies and selling them. The supplies are ordered by a department clerk using a P-Card and are kept in the clinic supply closet that is accessible to all staff. There is no listing of the supply of products for sale or a complete record of retail sales. After a time, the department administrator notices the department supply spend is way over budget. In addition, an employee makes allegations that other employees are helping themselves to the supplies for personal use. Upon further investigation, the administrator finds that the clinic supply closet is disorganized, clinic supplies are mixed in with retail supplies, and some supplies are past their expiration date. Vendors have also left product samples and gifts that the clinic staff have been personally using and offering to patients. Because sales and purchases have not been tracked, there is no way to evaluate whether the side business is profitable.

Could this situation be improved?

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CASE STUDY 4

A department has a part-time faculty director, who is appointed for a three year term, and a full-time administrator. The administrator runs the day-to-day operations of the Center with the assistance of an accountant, several clerical staff, and some work/study students. The administrator has been in the same position for many years and is well-respected.

The department faculty members occasionally complained to the director about the lack of project budget information and the fact that the accountant, who reports to the administrator, cannot seem to take care of simple business transactions when the administrator is away. Despite the occasional faculty grumbles, the director is happy with the administrator's performance since he is never bothered with bureaucratic paperwork and can devote his time to scholarly research and instruction.

For two years, the administrator routinely forged the director's signature on documents. He ordered expensive electronic equipment; then gave it to family and friends — or sold it on eBay. He gave himself unauthorized bonuses and salary increases. He charged personal items on his University P-Card. He hired a relative as a full-time temporary employee but that person never actually worked in the unit.

A vigilant vendor called the University about a warranty on a computer that was registered to the University of Michigan. That call led to the discovery of the fraud.

What were the warnings signs that something was wrong?

What basic organizational controls were missing?

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