UNIVERSITY OF MICHIGAN
OFFICE OF UNIVERSITY AUDITS

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.

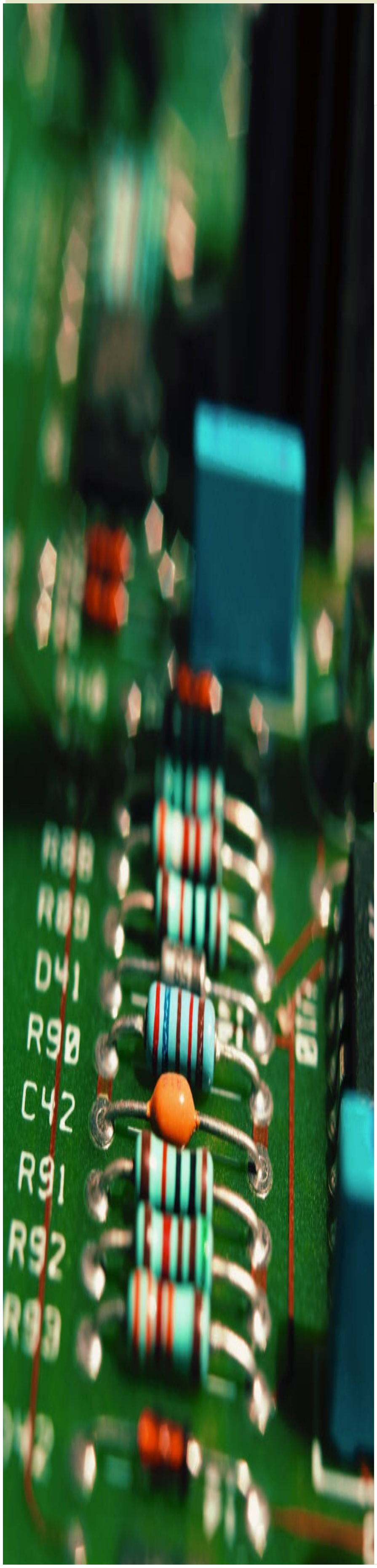
For eighteen months, the administrative assistant was busy charging thousands of dollars of personal expenses such as garden supplies, dentist appointments, and groceries on her University P-Card. She was forging the approval signature of the Director before submitting her P-Card statement.

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?



CASE STUDY 2

A University unit was processing refunds for individuals outside of U-M. A team of five people headed by a lead refunder calculated and processed these refunds. The lead person gathered the data needed for processing refunds and recorded it on a master Excel spreadsheet. This data included not only the amount of the proposed refund but personal data such as social security numbers related to those who would receive the refund. The Excel spreadsheet was not protected – the integrity of the formulas in cells and the raw data could be changed by anyone with access to the spreadsheet.

Periodically, the master spreadsheet was split into segments and pasted into new, smaller spreadsheets and emailed to the other members of the refunding team. The master spreadsheet was then destroyed. Team members then used their smaller spreadsheets to contact those receiving the refunds. Once contacts were made, the data on the smaller spreadsheets was also deleted. There was no trail or record of who was contacted, when, by whom, or the dollar amount of the refund.

Who has responsibility for the integrity of the data?

How should the data be protected?

CASE STUDY 3

While the previous case focused on protected data in spreadsheets, the refund process itself, has significant risks. In fact, in the past few years, the University has experienced more and more refund fraud. For example, a department at the University provides a service to students, staff, and people outside the University. The person assigned to take in credit card payments also had responsibility for issuing credits when the service is cancelled or interrupted. There was no requirement to match a refund with the original charge; no one of higher authority had to approve credits.

The person issuing credits inappropriately processed a credit card refund to her own personal credit card number. Time passed and no one noticed. Over the next eight months, she processed more than $26,000 in refunds to her credit card number. Still no internal control existed to catch the problem. The fraud might have gone on for a much longer time if the bank had not called the University Treasurer's office. They found it unusual that there were so many credits to one credit card number.

How might this fraud have been prevented or detected?

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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?

The unit was not prepared to manage a retail business operation. Product offered for sale should be segregated and secure. Maintain inventory records and perform periodic physical counts and reconciliations to establish necessary inventory levels and order frequency, avoid shortages and expired product, limit pilferage, and ensure accurate recording of sales and costs. Record keeping should be sufficient enough to allow management to evaluate the costs/benefits of the activity. Under Michigan law, sales of retail product are taxable, and require collection of sales tax and monthly tax filings. In addition, there may be University strategic vendors or existing negotiated supply contracts that can provide the supplies at a much lower cost to the department.

Direct clinic staff interaction with vendors and acceptance of vendor samples and gifts is strictly controlled, and in most cases prohibited by the health system. On the campus-side, the University prohibits acceptance of personal gifts from vendors other than those of de minimis value.

CASE STUDY 5

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?

This is a common example of misallocation of funds for administrative and research specific activities. In general, administrative research activities, including computers, email, and system administration are considered an indirect cost, and already provided for in the indirect cost rate that is charged to the grant. By directly charging a grant for administrative activities, we are "double-dipping." The solution would be to allocate a logical portion of the purchase cost and maintenance of the computer system and the analyst's salary to departmental administrative funds.