

Fraud in government: A simulated investigation of a real-world case¹

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ABSTRACT

The case is a mock investigation to provide students an opportunity to apply forensic accounting and fraud examination skills students learned in graduate fraud and forensic accounting courses to a real-world fraud case. Specifically, the case will expose the students to “hands-on” tasks related to the application of research, evidence identification/collection, interviewing, elements of financial criminal laws, report writing and presentation skills. Investigative techniques will be utilized in this assignment. The simulated investigation with the case has been tested in a graduate Fraud Examination Case Studies course. The primary subject matter of the case is governmental fraud and lack of internal controls with the reimbursement of expenses. Secondary issues include the use of investigation and interview techniques, due diligence, and report writing to identify the fraud, the perpetrator, and summation of the loss. The case has a difficulty level of six and is targeted for second year graduate students in an upper level fraud examination or forensic accounting course. It provides students, as investigators, to have practical discussions and obtain experience on the application of the investigation, interview and report writing for a fraud case. The case is designed to be conducted over multiple weeks of the semester in order for students to request the necessary documentation, interview the potential suspect, write the report, and present their findings.

Keywords: Fraud examination, forensic accounting, embezzlement, investigation, simulated case

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¹ Teaching notes are available to university faculty members. Email Dr. Glodstein at glodsteind@oldwestbury.edu from your university email to receive a copy of the teaching notes.

CASE SYNOPSIS

The case provides a practical example of governmental contractor fraud. The case is a mock investigation to provide students an opportunity to apply forensic accounting and fraud examination skills learned in graduate fraud and forensic accounting courses to a real-world fraud case. Specifically, the case will expose the students to “hands-on” tasks related to the application of research, evidence identification/collection, interviewing, and financial criminal laws. Investigative techniques will be utilized in this assignment.

Most cases currently available in the area of fraud examination and forensic accounting are 20-20 hindsight cases, which provide all the facts, the potential red-flags, outcome, and lessons learned for the students to read. The case is an interactive case in which the students are provided with preliminary facts and documentation, and they need to discuss and request the additional documentation needed to quantify the loss and support their findings. The case is designed to have students work in small groups and use their investigative, interviewing and writing skills they have learned. Each group will yield different results based on the documentation requested and facts gathered during the interview process.

CASE BACKGROUND

As an investigator assigned to the State Financial Crimes Task Force, during a routine audit of the government travel expense reimbursement system [utilized by the U.S. Geological Survey (USGS) employees while traveling on official business related to their work], it was discovered that two travel vouchers in the names of different people appear to have been deposited to a single bank account.

The investigative team was assigned to investigate financial crimes affecting the State University campus, personnel and facilities. The team worked closely with the U.S. Department of Interior (DoI), Office of Inspector General (OIG), Internal Audit Division due to the State University receiving grants from the DoI, specifically those related to a research project on North American earth sciences. As a part of this grant project, several federal employees from the USGS were located within State University facilities conducting studies related to groundwater testing on and around State University’s campus properties. The project’s operations were audited by the DoI OIG internal auditors, and any suspicious activity or possible fraud is reported to the State Economic Crimes Task Force (ECTF). The ECTF was managed by a supervisory special agent of the DoI OIG’s Investigations Division, and comprised of local, state, and federal fraud investigators.

Frankie Fraudster, a suspect in this scheme, was a systems analyst whose job responsibilities included creating and approving vouchers. In addition, he reviewed receipts for travel expenses and handles expense reimbursements for travel. Mr. Fraudster could approve any amount as long as the travel was approved by the employee’s manager.

The investigative team, members of the ECTF, are the next up on the rotation for case assignment. At the beginning of the investigation, the team was provided with the DoI OIG Internal Audit Division’s report of their audit findings and travel vouchers that support their findings (See Audit Review Report and Travel Expense Vouchers below), which will provide further details about their audit findings.

Instructions:

The investigative team develops their own red flags based on the evidence provided and the information they gather during the course of their investigation and from the interview of the potential suspect. The team may or may not need to ask for additional travel voucher documents during the course of the investigation. Should it be necessary to make a request for such, the team will notify the course instructor with a specific request of what documentation they need and why.

Working as a team, the materials provided by DoI OIG Internal Audit need to be reviewed to determine the next logical step in the investigation, conduct forensic accounting techniques on any records they recover for possible evidence of fraud, and exhaust all possible investigative leads. At any time, the team may ask the instructor if they may carry out an investigative step they think would be appropriate, and the instructor will advise them if that is appropriate (and provide them with materials to carry that step out), inappropriate at this time (and instruct the team on what additionally would be required to allow that step), or not appropriate to this case.

POSSIBLE ASSIGNMENT STEPS

1. At the beginning of the investigation the DoI OIG Internal Audit Division will provide the team with their report of their audit findings and travel vouchers that support their findings. The assignment should be presented to the students 3 to 4 weeks into the semester as they need to develop their investigation, as a group, and possibly request additional evidence to support their findings. The group meetings, discussions, request for additional documentation (from the professor), and re-evaluation of any additional documentation will require at a minimum of a few hours of work.

They should conduct the investigation by applying forensic accounting techniques on the evidence provided. The team may or may not need to ask for additional travel voucher documents during the course of the investigation. Should it be necessary to make a request for such, the team will notify the course instructor with a specific request of what documentation is needed and why.

2. Should the team determine a need for bank account records for a specific investigative purpose, they must complete and submit to the instructor a subpoena (all required information must be filled in) and subpoena affidavit. The affidavit must state in sufficient detail the following: the investigator's credentials, training and experience; background of the case; specifics of probable cause that said bank account was used in the commission of a crime (i.e. if the affidavit is less than a page in length that clearly will have insufficient detail). Please note, if the team's subpoena is incomplete or affidavit lacks sufficient detail, it will be returned to them to correct and resubmit.

The review and writing of a correct and completed subpoena should take the students approximately one hour of work.

3. At the conclusion of the investigation, the team will perform an interview of the suspect in an attempt to gain an admission to their role in fraudulent activity (if the team has sufficient evidence to prove this). This interview will be conducted with a role player playing

the part of the suspect (Frankie Fraudster). Remember, it is rarely successful in an interview of a suspect to just “jump right in” with accusations from the onset of the interview; it is important to establish rapport first in order to make the suspect feel comfortable talking with them about something they likely do not wish to admit to.

Depending on the size of the class, each group will be given 30 to 45 minutes to interview the suspect. During each group’s interview of the suspect, the other groups have the opportunity to meet, discuss, and work on their investigation of the case.

4. At the conclusion of the investigation, the team will be provided with a blank Report of Investigation (ROI) form to use in documenting their investigation and summarizing the facts of the case. The ROI should be a clear narrative of what investigative steps they took, results of each investigative step, the evidence they obtained (including any admissions made by the suspect during interview), and how the evidence obtained proves the statutory elements of a specific financial crime or crimes. For the purposes of this assignment, the investigation may develop evidence of any or all of the following federal criminal statutes: False Statements (18 USC 1001), Bank Fraud (18 USC 1344), Wire Fraud (18 USC 1343), Money Laundering (18 USC 1956 or 1957), Embezzlement of Public Money (18 USC 641). It is your responsibility to review the actual statutes of the above listed offenses (go to <https://www.law.cornell.edu/uscode/text>) to determine which, if any, offenses were violated. Again, in the ROI the team will need to specify in sufficient detail how your evidence proves the elements of a given criminal statute before they can say the statute was violated.

The report writing will take the students 4 to 5 hours to complete as the student investigators have minimal experience writing a forensic report. This can be completed in a number of different ways depending on the dynamics of the group. In previous semesters using this case, some students write different sections of the report and then each have the opportunity to edit the for final submission. Some groups choose to have one student draft the entire report, then have the remaining group members edit the report for final submission.

5. At the conclusion of the investigation, after the ROI has been completed and submitted to the instructor, the team will present the findings of their investigation orally to a “mock prosecutor” (a guest lecturer). The date of this presentation will be determined at a later date by the instructor. While the team may refer to the ROI to refresh their memory on specific details, they should be familiar enough with the case to be able to speak to specifics about the facts of their investigation without reading verbatim from the ROI itself.

Depending on the size of the class, each group will be given 30 to 45 minutes to present the group findings of their investigation. Each group member is present during the presentation and each member of the group will be asked questions regarding the group’s findings to evaluate the student’s understanding and findings in the case.

Teaching notes are available to university faculty members. Please email Dr. Glodstein at glodsteind@oldwestbury.edu from your university email to receive a copy of the teaching notes. Teaching notes will not be sent to gmail, Hotmail, etc. Teaching notes will not be sent to students.

APPENDIX 1

Department of the Interior
 Office of Inspector General
 Internal Audit Division

Audit Review Report

Background:

Inherent Risk(s):

The inherent risk associated with having travel approval authority vested in the same person creating travel requests in the travel expense reimbursement system is lack of internal controls necessary to mitigate misuse or fraud within the expense reimbursement system. This risk is primarily related to operational, regulatory and reputational risks from fraud, waste and abuse of government funds.

Audit Objectives:

The objectives of this audit are to evaluate:

- Effectiveness of internal controls within the expense reimbursement system
- Compliance with government travel policies and procedures, particularly as it relates to reimbursement of travel expenses.
- Monitoring of expense reimbursements that may evidence either unallowable reimbursements or expressly unallowable reimbursements.

Scope:

The scope of this review included all expense reimbursement claims by USGS personnel assigned to the State University campus during June 2014 to May 2015.

Internal Audit Personnel:

Kay Smith, Internal Auditor, DoI OIG
 Chuck Jones, Supervisory Auditor, DoI OIG

Findings:

Issue #	Issue Priority	Observation	Potential Risk	Recommendation
1	1 – potential red flag of fraud	Travel voucher of Joseph Gordon created and approved by Frankie Fraudster, and deposited to State Bank account #123456789	Possible reimbursement of expressly unallowable reimbursement	Refer to State ECTF for further investigation
2	1 – potential red flag of	Travel voucher	Possible	

	fraud	of Caitlyn Callahan created and approved by Frankie Fraudster, and deposited to State Bank account #123456789	reimbursement of expressly unallowable reimbursement	
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This report is intended for the exclusive use of the Department of the Interior, Office of Inspector General, and should not be released to anyone outside the agency without the written consent of the DoI Inspector General or Assistant IG for Internal Audit. This audit was conducted in conformity with the IIA's *International Standards for the Professional Practice of Internal Auditing*.

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APPENDIX 2

Travel Expense Voucher

Report Name: Airline ticket- Gordon

Employee Name: Gordon, Joseph

Employee ID: 00173898

Policy: US Expense Policy
 Business Purpose: site evaluation
 Report Key: 21545
 Report Id: 9506C0DE86CA43D79CF8
 Report Date: 07/31/2014
 Approval Status: Pending Cost Object Approval
 Currency: US, Dollar

Airfare	Transaction Date	Expense	Type Business	Purpose	Vendor
	07/31/14	Airfare	Site evaluation	Airline	
Vendor	Name	City	Payment Type	Amount	
Delta	Albany		Reimbursement	\$1200.00	

Allocations: 100.00% (\$1200.00) 00173898-7503-10874-S15-NC

Report Total: \$1200.00
 Personal Expenses: \$0.00
 Total Amount Claimed: \$1200.00
 Amount Approved: \$1200.00
 Company Disbursements
 Amount Due Employee: \$0.00
 Amount Due Company Card: \$0.00
 Total Paid By Company: \$1200.00
 Employee Disbursements
 Amount Due Company: \$0.00
 Amount Due Company Card From Employee: \$0.00
 Total Paid By Employee: \$0.00
 Approved By: F. Fraudster

Note: The sum of allocation amounts may not exactly match the expense amount due to rounding.

APPENDIX 3

Travel Expense Voucher
 Report Name: Airline ticket- Callahan

Employee Name: Callahan, Caitlyn
 Employee ID: 00173847

Policy: US Expense Policy
 Business Purpose: site evaluation
 Report Key: 21545
 Report Id: 9506C0DE86CA43D79CA1
 Report Date: 08/31/2014
 Approval Status: Pending Cost Object Approval
 Currency: US, Dollar

Airfare	Expense	Type Business	Purpose	Vendor
Transaction Date 08/31/14	Airfare	Site evaluationOB	Airline	
Vendor	Name	City	Payment Type	Amount
American Airlines	Albany		Reimbursement	\$1500.00

Allocations: 100.00% (\$1500.00) 00173898-7503-10874-S15-NC

Report Total: \$1500.00
 Personal Expenses: \$0.00
 Total Amount Claimed: \$1500.00
 Amount Approved: \$1500.00
 Company Disbursements
 Amount Due Employee: \$0.00
 Amount Due Company Card: \$0.00
 Total Paid By Company: \$1500.00
 Employee Disbursements
 Amount Due Company: \$0.00
 Amount Due Company Card From Employee: \$0.00
 Total Paid By Employee: \$0.00
 Approved By: F. Fraudster