

Washington State Auditor's Office
Fraud Investigation Report

University of Washington

Investigation Period
January 1, 2011 through May 14, 2013

Report No. 1010577

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October 7, 2013



WASHINGTON
TROY KELLEY
STATE AUDITOR



**Washington State Auditor
Troy Kelley**

October 7, 2013

Michael K. Young, President
University of Washington
Seattle, Washington

Report on Fraud Investigation

Attached is the official report on two misappropriations at the University of Washington's International Training and Education Center for Health (I-TECH). On December 19, 2011, and January 31, 2012, the University notified the State Auditor's Office of two potential losses of public funds. These notifications were submitted to us under the provisions of state law (RCW 43.09.185).

This report contains the results of our investigation of the following:

- The former finance assistants' unallowable activities at the University's I-TECH Tanzania location from January 2011 through December 2011.
- The former financial accountant's unallowable activities at the University's I-TECH Namibia location from September 2010 through January 2012.

The purpose of our investigation was to determine if misappropriation had occurred.

Our investigation was performed under the authority of state law (RCW 43.09.330) and included procedures we considered necessary under the circumstances.

Questions about this report should be directed to Fraud Manager, Sarah Walker at (509) 454-3621.

TROY KELLEY
STATE AUDITOR

cc: Richard Cordova, Executive Director of Audits

Fraud Investigation Report

**University of Washington
January 1, 2011 through May 14, 2013**

INVESTIGATION SUMMARY

The University of Washington's Executive Director of Internal Audit notified our Office regarding two potential losses of public funds, as required by state law.

The University initiated an investigation and determined:

- Two finance assistants recorded falsified expenses and inserted fake receipts to misappropriate funds through travel advances at the I-TECH Tanzania location, which led to a misappropriation totaling \$18,358 between January 2011 and December 2011. An additional \$9,807 in questionable transactions were identified in which documents had been altered or missing, but it could not be determined if a misappropriation occurred.
- The financial accountant at the I-TECH Namibia location recorded fake vendor expenses in order to wire payments to her personal account as well as accounts of her sister and a friend, which led to a loss totaling \$56,000 between September 2010 and January 2012.

BACKGROUND AND INVESTIGATION RESULTS

The University, located in King County, operates on an annual budget of approximately \$5.5 billion, including \$70 million for the International Training and Education Center for Health (I-TECH). I-TECH is a center in the University of Washington's Department of Global Health and is in partnership with the University of California, San Francisco. It has approximately 700 worldwide staff members working in more than 20 countries.

Our investigation focused on reviewing the investigations performed by the University and a firm contracted by the University to perform a forensic investigation. We were unable to review all supporting documentation due to its location on site in the respective countries. Based upon our review of the documents on hand and the methodology used, we agreed with the results of the following.

I-TECH Tanzania

After concerns were noted during a routine review by I-TECH headquarters staff in Seattle, an accounting firm was contracted to perform a forensic investigation in Tanzania. The investigation focused on reconciliation of travel advances.

Two financial assistants were required to reconcile travel advances provided to training assistants with actual expenses that were incurred, to ensure all remaining cash was returned. The investigation found the financial assistants misappropriated:

- \$7,382 by posting fictitious expenses in the accounting system when training assistants returned unspent cash.
- \$8,179 by inserting a fake receipt and/or a falsified per diem allowance form, or manipulating figures on the documentation submitted by the training assistants.

When the two finance assistants were interviewed, they stated they had been involved in the irregularities for personal gain.

The contracted accounting firm performed an additional investigation to address concerns noted about other employees. This investigation found two training assistants and the Human Resource for Health Program Manager misappropriated:

- \$1,845 by altering receipts submitted for support of their travel advance expenses.
- \$952 by arranging for a local vendor to produce fake invoices.

The investigation also identified \$9,807 in questionable transactions in which documents appeared to have been altered, were missing, or could not be verified, but it could not be determined whether misappropriation had occurred.

I-TECH decided not to pursue legal action against those involved due to the length of time it would take in the local legal system, but did receive restitution for the loss of funds. The University did not seek our approval for restitution and therefore did not seek reimbursement for our investigation costs of \$1,002.

I-TECH Namibia

After the finance manager at I-TECH Namibia found that a wire payment to a vendor had a different account number than listed on prior payments, the University's internal auditors performed an investigation. Their investigation focused on all wire payments made by the I-TECH financial accountant. The investigation found that the accountant falsified vendor documentation and she misappropriated:

- 62 payments totaling \$50,791 by electronically transferring them to three personal bank accounts.
- Ten payments totaling \$3,400 by electronically transferring them to her friend's bank account.
- Four payments totaling \$1,809 by electronically transferring them to her sister's bank account.

In order to determine if any additional misappropriation occurred, the University's internal auditors examined systems to which the former Financial Accountant had access. They reviewed petty cash, blank check stock, travel advances, payroll and physical inventory of assets and cash receipts. They did not find additional misappropriation.

This case has been referred to the Namibian court system and the trial is in progress.

CONTROL WEAKNESSES

Internal controls at the University were not adequate to safeguard public resources. We found the following weaknesses allowed the misappropriations to occur:

Tanzania:

- There was a lack of segregation of duties and no independent reconciliation of travel advances. The finance assistants reconciled travel advances, receipted cash and posted expenses to the accounting system.
- Inadequate review of expenses claimed against travel advances.

Namibia:

- Inadequate review and approval of wire transfer requests.
- Inadequate internal controls over the financial accountant's ability to enter vendor bank account numbers into the online banking system.

RECOMMENDATION

We recommend the University:

- Strengthen internal controls over travel advances and wire payments to ensure adequate oversight and monitoring to safeguard public resources and compliance with University policies.
- Prior to entering into restitution agreements, submit the agreements to the State Auditor's Office and the Attorney General's Office for approval as required by state law.

We also recommend the University seek recovery of the misappropriated \$56,000 and related investigation costs of \$1,211 from the former financial accountant in Namibia and/or its insurance bonding company, as appropriate. Any compromise or settlement of this claim by the University must be approved in writing by the Attorney General and State Auditor as directed by state law (RCW 43.09.330). Assistant Attorney General Jean Wilkinson is the contact person for the Attorney General's Office and can be reached at (360) 586-0812 or jeanw@atg.wa.gov. The contact for the State Auditor's Office is Jan Jutte, Deputy Director of State and Local Audit, who can be reached at (360) 902-0363 or jan.jutte@sao.wa.gov.

UNIVERSITY'S RESPONSE

Recommendation 1: Strengthen controls over travel advances and wire payments.

We agree with the recommendation. Controls over travel advances and wire payments have been strengthened in Tanzania and Namibia respectively. In addition, 'lessons learned' from these two incidents have been disseminated to all I-TECH offices.

Recommendation 2: Seek SAO and AG office approval for all restitution agreements prior to entering into them.

While we acknowledge that state law does require UW to obtain SAO and AG approval for restitution agreements, we believe there are cases, especially in overseas operations where it may be judicious for us to negotiate an agreement before employment is terminated and while those involved can still be contacted. In the Tanzania case full restitution of the misappropriated federal funds was obtained.

Additionally, we will work with the SAO and AG's Office to create a process to expedite matters when dealing with employee termination and loss collection in international locations.

Recommendation 3: *Seek recovery of the misappropriated \$56,000 and related investigative costs of \$1,211.*

We agree with the recommendation. We are actively seeking full restitution of \$57,211 as part of the ongoing legal process in Namibia.

STATE AUDITOR'S OFFICE REMARKS

We thank University officials and personnel for their assistance and cooperation during the investigation.



ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

Our mission is to work with our audit clients and citizens as an advocate for government accountability. As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

The State Auditor's Office employees are located around the state to deliver services effectively and efficiently.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments and fraud, whistleblower and citizen hotline investigations.

The results of our work are widely distributed through a variety of reports, which are available on our Web site and through our free, electronic subscription service.

We take our role as partners in accountability seriously. We provide training and technical assistance to governments and have an extensive quality assurance program.

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