



Fraud in Austere Times

Insights from an Inspector General

Allison C. Lerner
Inspector General
National Science Foundation

ACCOUNTABILITY CONFERENCE
Paris, France

June 20, 2012



Trends in Fraud Cases

Travel Fraud– False or Duplicate Expenses/Payments

Payroll Fraud– False Timecards or Fictitious Employees

Purchase Card Fraud – Fake or Enhanced Invoices

Duplicate Appointments/Funding – Personal Gain

Plagiarism as Fraud

Overarching Risks with Small Businesses



Travel and Payroll Fraud Case Study

- A PI at a university received a grant to provide Hands-on-Science training to school districts.
- The PI and her admin assistant started a private company to provide Hands-on-Science training to schools not involved with the NSF grant.
- The PI did not disclose the private company and the outside work to the university.
- The PI and the assistant diverted NSF grant funds by submitting false travel and payroll vouchers for private business activities.



Travel and Payroll Fraud Resolution

- The PI was indicted on mail and wire fraud related to charging expenses for private business activities to the NSF grant.
- The PI pled guilty to making false statements and paid restitution of \$25,598 for falsely charging travel and salary.
- The PI was sentenced to 6 months home confinement and 2 years supervised probation.
- NSF debarred the PI government-wide from all federal grants and contracts for 5 years.



Internal Travel Fraud Case Study

- **Allegation: NSF program officer used influence to fund post-doctoral student's proposal and received multiple reimbursements for travel**
 - **Part-time employee – 60 days a year**
 - **Owned a small business and also did private consulting**
 - **Neither the small business nor the consulting was identified in his conflicts of interest filings with NSF or his university**



Internal Travel Fraud Case Study

•Investigation:

- Identified that he was on travel almost every day as PO**
 - Travel schedule often paralleled the travel schedule of his wife, a popular US folk/country singer**
 - He often double-billed his NSF travel to his University**
 - Sometimes triple- and quadruple-billed travel to Japanese businesses (estimated over \$170K of overbilled travel)**
- Contact with his university indicated they were already investigating his travel reimbursements**
- University informed us he was previously reprimanded for double billing his travel about 5 yrs earlier**



Internal Travel Fraud Case Study and Resolution

- **Investigation (con't)**
 - Reviews of internal documentation indicate that he did fund post-doctoral student without identifying his conflict with the student.
- **Adjudication:**
 - AUSA declined to prosecute given small loss to U.S. Government and State D.A. interest in prosecution
 - Based on OIG recommendation, NSF terminates subject's employment
 - State prosecution of case is on-going.



Purchase Card Fraud Case Study

- **NSF grant for a Bio-engineering Research Center at a university included funding for materials and supplies, purchased by an accountant at the Center.**
- **State audit identified possible misuse of P-Cards at the university.**
- **The university alleged misuse of P-Cards by the accountant for making personal purchases using internet vendors.**
- **Some of the personal purchases were charged to the NSF grant that funded the Research Center.**



Purchase Card Fraud Case Study

- The accountant resigned from university after initial questioning by university auditors.
- OIG agents and university auditors investigated diversion of grant funds by P-Card misuse.
- Found on the accountant's university computer:
 - E-mails from internet vendors shipping goods to the accountant's home
 - Copies of templates for various vendor invoices—One template altered 64 times
 - Personal pictures of the accountant enjoying the good life.



003



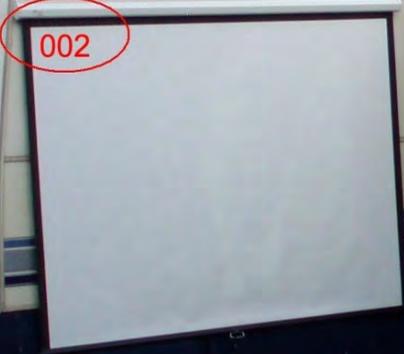
004



005



002



001



014



015



013



009



010



010



018



010



020



007



011



012



008



010



016



017



021





Tracking the Evidence

	DESCRIPTION	CHARGE D	VENDOR
001	Security First JCS-552/27A 5 " Rear View Camera System	\$249.99	Buy. COM
002	Draper 207010 4:3 Manual Wall Projection Screen	\$151.14	Amazon. COM
003	RV Air Conditioner, Complete (13.5K / Cool Only / Non-Ducted) - Color - White	\$518.99	Amazon. COM
004	RV Air Conditioner (15K - Heat/Cool) - Complete Assembly - Color - Ivory	\$639.00	Amazon. COM
005	Carefree Fiesta 14' Vinyl Awnings - Color - Ocean Blue	\$648.99	Amazon. COM
007	InFocus X2 Multimedia DLP Projector	\$794.99	Amazon. COM
008	Igloo AUDIO CO AU College Audio Cooler - Auburn University	\$83.94	Amazon. COM
009	Classic Check Oilcloth Table Cloth - Orange (48 x 108)	\$30.00	Amazon. COM
010	4 - NCAA Auburn Tigers Orange Adult Chair	\$183.45	Amazon. COM
011	4 - Byer of Maine Folding Table (16" x 16" x 16.5")	\$161.97	Buy. COM
012	Auburn Tigers Tailgater Mat	\$181.93	Amazon. COM
013	Coleman Road Trip Grill	\$210.40	Amazon. COM
014	Auburn White Canopy by Logo Chair	\$291.95	Amazon. COM
015	Auburn Color Canopy by Logo Chair	\$311.95	Amazon. COM
016	NCAA Auburn Tigers logo XL 5 X 8 Tailgate Rug	\$129.99	Amazon. COM
017	Auburn Tigers 11"x15" Garden Flag	\$16.99	Amazon. COM
018	PAYPAL - Purchase (utility trailer)	\$550.00	Pay Pal
020	Optronics TLL-56RK Waterproof LED Trailer Light Kit	\$54.98	Buy. COM
021	NCAA Auburn Tigers 20" Double Level Ribbon Pinwheel - Team Sports America	\$30.48	Amazon. COM



Purchase Card Fraud Case Study

- **Investigative Findings**

Over 5 year period of time:

- **Over 3800 personal purchases made from more than 15 different vendors**
- **Over 1900 transactions through the institution's financial system**
- **Over 30 different accounts (NSF/State/Private) fraudulently charged**
- **Over \$316,000 fraudulently diverted**



Some Items over \$1000





Purchase Card Fraud Case Study

How the accountant manipulated the accounting system

- **Poulan Lawn Tractor - \$1099 - transferred 3 times in 3 months**
- **HP Pavilion Notebook PC - \$1023 - transferred 3 times in 4 months**
- **BUNN Ultra-2 Drink System - \$2134 - transferred 3 times in 4 months**
- **Portable RV Refrigerator/Freezer - \$1029 - transferred 5 times in 4 months**



Fake Receipt for \$1300.00

PayPal

[My Account](#)

[Send Money](#)

[Request Money](#)

[Merchant Tools](#)

[Auction Tools](#)

[Overview](#)

[Add Funds](#)

[Withdraw](#)

[History](#)

[Resolution Center](#)

[Profile](#)

Transaction Details

eBay Payment Sent (ID # 546546sd4f64e643df13se5)

Total Amount: \$1300.00 USD

Date: 6/07/2006

Status: Completed

Item #	Item Title	Qty	Price	Subtotal
6572837255	Bioengineering Books - Hardcover	1	\$1300.00 USD	\$1300.00 USD
	Shipping & Handling via UPS Next Day Air (includes any seller handling fees)			\$.00 USD
	Shipping Insurance :			--
	Total:			\$1300.00 USD

Shipping Address: Adam Higgins
315 Ferst Drive

Atlanta, GA 30332

Payment To: GREG EIDSON (The recipient of this payment is **Verified**)

Seller's ID: MMOSE



What was really bought





Backyard view of the accountant's home





Driveway view of the accountant's home





OIG and FBI Executed Search Warrant Seizing Over 50 Items

- **5 flat screen TVs (3 with built in DVD player)**
- **5 computers (2 desk tops and 3 laptops)**
- **5 digital cameras (2 in original boxes)**
- **Poulan Lawn Tractor (tools/lawn equipment)**
- **Multimedia Projector/Wall Projection Screen**
- **Bunn Frozen Drink System**
- **Yamaha Wave Runner III**



Purchase Card Fraud Resolution

- **22 count Federal Criminal Indictment**
 - **17 Counts Mail Fraud**
 - **5 Counts Theft from an Organization Receiving Federal Funds**
- **Accountant pled guilty to all 22 counts**
- **Sentenced to 32 months prison**
 - **3 years supervised probation**
 - **Ordered to Pay \$318,200 in restitution and fines**
 - **250 hours community service**
- **NSF debarred the accountant for 5 years.**



Duplicate Funding Case Study

- Duplicate funding occurs when a PI receives duplicative grants from different agencies without fully disclosing all awards to all agencies.
- Investigation initiated when NSF and DOE discovered that both agencies funded the same PI for the same research.
- The PI made false statements to DOE and to the university to conceal the fact that NSF had already funded the same research.



Duplicate Funding Case Resolution

- Investigation disclosed that the PI also owned several small businesses that had received research funding from NIH. HHS-OIG joined the ongoing investigation.
- The PI concealed his outside business activities to the university and used the multiple funding sources for his personal gain of more than \$640,000.
- The PI pled guilty to three felonies, including false statements to receive the grants from the agencies.
- Sentencing will occur in July 2012.



Duplicate Appointments

- Duplicate appointment occurs when a PI holds a faculty position at two different institutions without informing one or both institution(s) of the other appointment.
- Several ongoing investigations involving duplicate appointments where scientists have received personal gain by concealing the other appointments.
- Two current investigations involve scientists that held duplicate appointments at US universities and foreign universities simultaneously.



Duplicate Appointment Case Study

- A foreign university requested that NSF provide salary information about a visiting professor who was part of a research grant to a US university.
- Investigation determined that the professor held simultaneous appointments as a full professor at the foreign university and as a researcher at the US university.
- The records showed that the professor started at the US university as a visiting professor but eventually became a researcher on an NSF grant.



Duplicate Appointment Resolution

- The US university paid the professor salary from the NSF grant w/o notifying the foreign university.
- The professor was paid over \$90,000 in NSF salary money that duplicated his foreign salary.
- The professor failed to notify both US and foreign universities of the duplicate salary payments.
- The foreign institution suspended the professor without pay for a time equal to the duplicate pay.
- The US university returned the \$90,000 to NSF; terminated employment of the visiting professor.



When Plagiarism Becomes Fraud Case Study

- **Offense:**
 - A professor at a U.S. university, submitted a proposal to NSF in the name of his wife, as president of a small business
 - NSF awarded a Phase I grant for \$99,300
 - No research was done; they simply wrote checks to themselves for salary, rent, and materials — and to their son's college for tuition



When Plagiarism Becomes Fraud Case Study

- **Offense, cont'd:**
 - **Professor submitted a final report to NSF for the Phase I grant--text was copied from his former student's Master's thesis**
 - **Professor submitted a Phase II proposal to NSF in his wife's name — NSF awarded a Phase II grant for \$399,982, made first payment of \$99,974**
 - **They paid most of the money to themselves, but did pay for some research done by a subcontractor, and began setting up a lab**



When Plagiarism Becomes Fraud Case Study

- **Investigation:**
 - The university found out — notified NSF — began process to fire professor— he eventually resigned
 - OIG interviewed the former student whose Master's thesis was copied into Phase I Final Report
 - When the professor requested the next grant payment from NSF, he learned about OIG interest. He called OIG and offered for both he and his wife to come and talk to us. Both made significant admissions



When Plagiarism Becomes Fraud Resolution

- **Prosecution:**
 - **OIG recommended that NSF suspend the grant (which NSF did), issued subpoenas, and referred the case to the Justice Department Criminal Division, which accepted it**
 - **At a meeting at DOJ with their attorneys, all tentatively agreed:**
 - **Professor was primarily responsible and would plead guilty to a criminal count**
 - **They would repay all grant funds**
 - **No action would be taken against his the wife**



When Plagiarism Becomes Fraud Resolution

- Restitution:
 - To demonstrate good faith, they offered to immediately pay back more than they stole
 - But NSF cannot supplement its appropriations, so could only receive reimbursement of \$199,274
 - However, NSF can receive unrestricted gifts, so they donated additional \$27,500 to NSF
 - Total received by NSF: \$226,774



When Plagiarism Becomes Fraud Resolution

- **Sentencing:**
 - Under the Federal Sentencing Guidelines, the dollar amount charged is important — in this case, charging less than \$120,000 would give the professor a chance to avoid jail
 - He was charged with the \$99,300 fraudulently received under Phase I, and not the Phase II funds
 - Judge imposed sentence: 5 years probation + \$15,000 fine



When Plagiarism Becomes Fraud Resolution

- **Administrative settlement terms:**
 - **Grant terminated, company dissolved**
 - **Professor debarred government-wide for 3 years**
 - **Professor can get a new faculty position, and only has to disclose debarment to new employer if he is going to be involved with federal funds**



Student Fails in Attempt to Take the Easy Way Out

- **Allegation: M.S. student fabricated all thesis research**
- **Investigation:**
 - **Student in M.S. program for 2.5 years**
 - **Publishes 3 peer reviewed journal articles and one conference article with two advisors (professors)**
 - **Successfully defends M.S. Thesis**
 - **Celebrates his accomplishments at a bar with a fellow student**
 - **While intoxicated, he admits that he fabricated every bit of his research.**
 - **Fellow student informs professors the next morning**



Student Fails in Attempt to Take the Easy Way Out

- **Investigation (con't)**
 - **When confronted, subject admits to his actions**
 - **Claims that he had no interest in the research but did not have the courage to ask his advisor's permission to pursue other research**
 - **Describes his actions as "lazy"**
- **Adjudication:**
 - **University removes student for cause and does not award M.S.**
 - **NSF makes a finding of research misconduct and debars student for 3 years.**



What can you do?

- **Trust your instincts**
- **Keep your eyes open**
- **Know who to turn to for expert help if you need it**
- **Never forget that funding science is important, but so is ensuring that money is not misused!**