



Fraud: What Were They Thinking?

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What is your highest aspiration?

1. Wealth
2. Fame
3. Integrity
4. Popularity
5. Knowledge



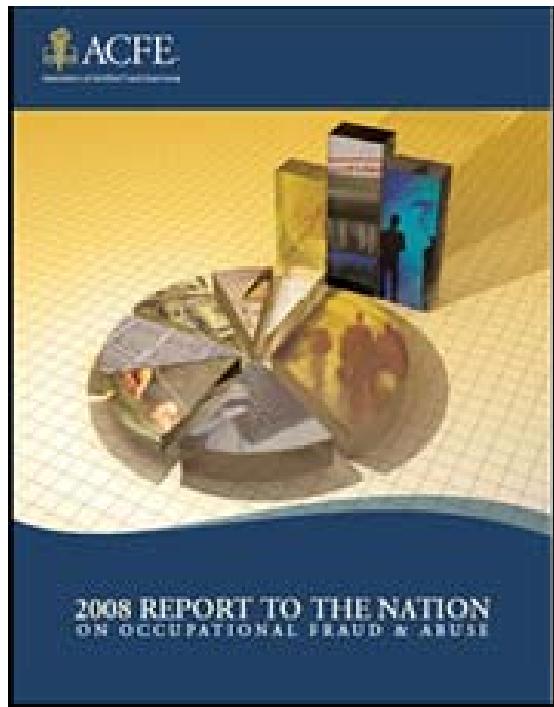
Adapted from a presentation prepared by L. Murphy Smith, Texas A&M University

If integrity is second to any of the alternatives, it is subject to sacrifice in situations where a choice must be made.

Such situations will inevitably occur in every person's life.

Adapted from a presentation prepared by
L. Murphy Smith, Texas A&M University

**The 2008 Report to the
Nation on Occupational
Fraud and Abuse
estimated that U.S.
organizations lose 7% of
their annual revenues to
fraud.**



Source: Association of Certified Fraud Examiners

What is the theoretical UCB cost of fraud?

Revenue Supporting Core Activities

	FY2009	FY2008
\$	1,808,629,000	\$ 1,789,047,000
7% \$	126,604,030	\$ 125,233,290
6% \$	108,517,740	\$ 107,342,820
5% \$	90,431,450	\$ 89,452,350

Salaries and Benefits

\$	1,193,475,000	\$ 1,136,462,000
7%	10.61%	11.02%
6%	9.09%	9.45%
5%	7.58%	7.87%

THE ORANGE COUNTY BETA REGISTER

University accused of being front for visa scam

By [JON CASSIDY](#)

2009-12-23 11:28:40



The owner and operator of California Union University – a purported university in Fullerton whose Web page is literally just one page – is due in court today to face federal charges that his school is actually a front for a visa fraud scheme.

Samuel Chai Cho Oh, 65, surrendered to Immigration and Customs Enforcement agents Tuesday morning, after a 10-month investigation into the school, which purported to offer courses in four areas: Biblical studies, English as a second language, Oriental medicine, and martial arts.

The school's federal certification to accept foreign students was revoked in October, authorities said.

Immigration officials allege that Oh collected \$40,000 to \$50,000 a month from "students" that received visa application forms in exchange.

At the school, students rarely if ever attended class and there were no teachers seen, immigration officials said.

Oh even staged graduation ceremonies and handed out phony diplomas, authorities said.

In March, immigration agents and officials from the Student and Exchange Visitor Program paid a surprise visit to the CUU campus at 905 S. Euclid St. The school had more than 300 students on its rolls, but Oh could only produce schedules for a few computer and English classes, officials said.

According to an affidavit filed in the case, officials arrested and interviewed more than 30 students, who said they paid from \$600 to more than \$10,000 for documents needed to get a visa, and never actually attended class or saw teachers at the school.

Oh, a naturalized U.S. citizen originally from Korea, also serves as pastor at Union Church on the CUU campus. If convicted of the conspiracy charge, he faces up to five years in prison.

ICE has seized more than \$400,000 from Oh and an associate.

Miguel Unzueta, special agent in charge for the ICE Office of Investigations in Los Angeles, said in a press release that student visas are meant for people "to enrich themselves with the remarkable learning opportunities available here," not with money.

Nobody answered the university's phone today.

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TUCSON MAN SENTENCED TO 42 MONTHS FOR STUDENT LOAN FRAUD SCHEME

by [Rynski](#) on May.11, 2010, under [Press Release](#)

TUCSON, Ariz. – On May 10, 2010, United States District Judge John M. Roll sentenced Stephen Gallagher, 29, of Tucson, Ariz. to 42 months in prison for his role in a scheme to fraudulently obtain student loans. Gallagher had pleaded guilty on June 30, 2008 to Count One of the Indictment charging Conspiracy to Offenses Against the United States, specifically, Bank Fraud, Wire Fraud, Fraud in Connection with Access Devices, and Identity Theft.

From 2002 to 2007, Stephen Gallagher submitted over 200 student loan applications via the Internet to various financial institutions seeking more than \$11 million in fraudulent student loans. Gallagher was successful in obtaining approximately 42 fraudulent student loans totaling over \$686,000.

The majority of these loan applications originated from one of eight different America On-Line (AOL) email accounts registered in the name of Stephen Gallagher. Gallagher submitted loan applications in his own name as well as in the names of certain family members. Gallagher then added these other individuals to his bank account so he could deposit the student loan checks, which were made payable in the name of the borrower. Fraudulent supporting documentation, such as proof of employment and residence verification, was submitted by Gallagher to the financial intuitions via facsimile.

Applications were submitted for attendance at Stanford University, George Washington University, University of Arizona, and Scottsdale Culinary Institute. None of the individuals listed as the borrower on the student loan applications ever attended these institutions. The financial institutions that funded the student loans included: First Marblehead, Wells Fargo, Key Bank, Education Finance Partners, Suntrust, JP Morgan Chase Bank, Chela Funding, Richland Bank, and Sallie Mae.

As part of his plea agreement, Gallagher agreed to forfeit almost \$40,000 seized from his residence, his vehicle and his bank account, and agreed to a money judgment in the amount of \$686,539.60, which constitutes the proceeds of his unlawful activity. Gallagher also agreed to make full restitution to the victim banks. Gallagher was ordered to serve three years of supervised release after completing his prison sentence.

The investigation in this case was conducted by the Federal Bureau of Investigation, Tucson, Arizona. The prosecution was handled by Eric Markovich, Assistant U.S. Attorney, District of Arizona, Tucson, Arizona.

RELEASE CLARIFICATION: Please note the additional involvement of the U.S. Department of Education-Office of Inspector General in the investigation
CASE NUMBER: CR-07-02408M **RELEASE NUMBER:** 2010-091(Gallagher)

Fraud Alleged at New York University

By THE ASSOCIATED PRESS Published: December 23, 2009

A former [New York University](#) employee used thousands of receipts mined from a liquor store's trash to get reimbursed for \$409,000 in phony expenses, prosecutors said on Wednesday.

The former employee, John Runowicz, 47, who was an administrator in the chemistry department, rummaged through the garbage at a shop near campus to find the receipts, prosecutors said. He got repaid for some 13,000 of them over six years, claiming the slips marked spending on lab supplies and college events, they said.

"Nobody looked to see that the receipts came from a liquor store," said [Robert M. Morgenthau](#), the Manhattan district attorney. The tactic went unnoticed before a student worker grew suspicious and alerted the school, prosecutors said.

Mr. Runowicz, charged with grand larceny, pleaded not guilty and was released without bail. He has been fired, a university spokesman said.

Ex-URI director to plead guilty in fraud scheme

01:00 AM EST on Thursday, January 7, 2010

By Katie Mulvaney

SOUTH KINGSTOWN — The onetime director of the University of Rhode Island's School of Education will plead guilty Friday to charges that he and a former colleague conspired to embezzle \$1.7 million from an education center at URI.

Robert Felner, a nationally known educator, will enter guilty pleas to 10 charges that include money laundering, fraud, tax evasion and conspiracy, in U. S. District Court for the Western District of Kentucky Friday afternoon, according to his lawyer Scott C. Cox.

Cox would not disclose the terms of the plea agreement reached with federal prosecutors, but he said he expected Felner's co-defendant, Thomas Schroeder, to proceed to what was to be a joint trial Feb. 1.

Felner and Schroeder were indicted in October 2008 for conspiring to embezzle \$1.7 million from URI's National Center on Public Education and Social Policy, which Felner led, through a dummy nonprofit organization the pair created of a similar name. In addition, federal prosecutors say they embezzled another \$576,000 from the University of Louisville and attempted to skim another \$240,000.

Felner and Schroeder siphoned revenue away from the URI center by inducing school districts in Atlanta, Buffalo, N.Y., and Santa Monica, Calif., to make payments to the phony nonprofit organization, the indictment said. In addition, Felner is accused of misdirecting other funds — including grants earmarked for the University of Louisville — to cover the URI center's expenses for legitimate work.

Between 2001 and 2007, Felner and Schroeder made 21 deposits — ranging from \$16,500 to \$404,000 — into the bank accounts connected to the phony organization, fraudulently concealing that money from the URI center, according to the indictment.

Felner, 59, who initially pleaded not guilty, is also accused of under-reporting his gross income by \$1.5 million and under-paying federal income taxes by \$500,000 over five years.

The indictment calls on the pair to forfeit \$2.1 million gained through the scheme, as well homes Felner bought in Florida and Illinois with the proceeds. Schroeder's lawyer did not return a phone call Wednesday.

URI is seeking to recover the \$1.7 million the two men diverted from the center, said Robert A. Weygand, URI's vice president of administration.

Weygand noted that the organization had continued to do good work even as the scam unfolded. "It wasn't a question about the quality of work," Weygand said. "It was a question of the character of the person who performed the work."

Felner directed the URI School of Education from 1996 to 2003, while serving as a professor. In 1997, he established the National Center on Public Education and Social Policy, a self-funded organization that generated revenue by contracting with school districts nationwide to provide school assessments. The money generated from that work was used to pay the center's staff and other expenses.

Felner left URI in 2003 to become dean at the University of Louisville, a position he held until he left to become chancellor at the University of Wisconsin Parkside.

He was forced to decline the appointment after federal authorities launched a criminal investigation into a \$694,000-grant Felner received in Louisville that never went to its intended purpose. The investigation led to Rhode Island, where Felner was highly regarded as a researcher for the millions of research dollars he brought during his years at URI.

What is Fraud?

An array of irregularities and illegal acts characterized by intentional deception, perpetrated by individuals inside or outside of the organization for their personal benefit or to benefit the organization.

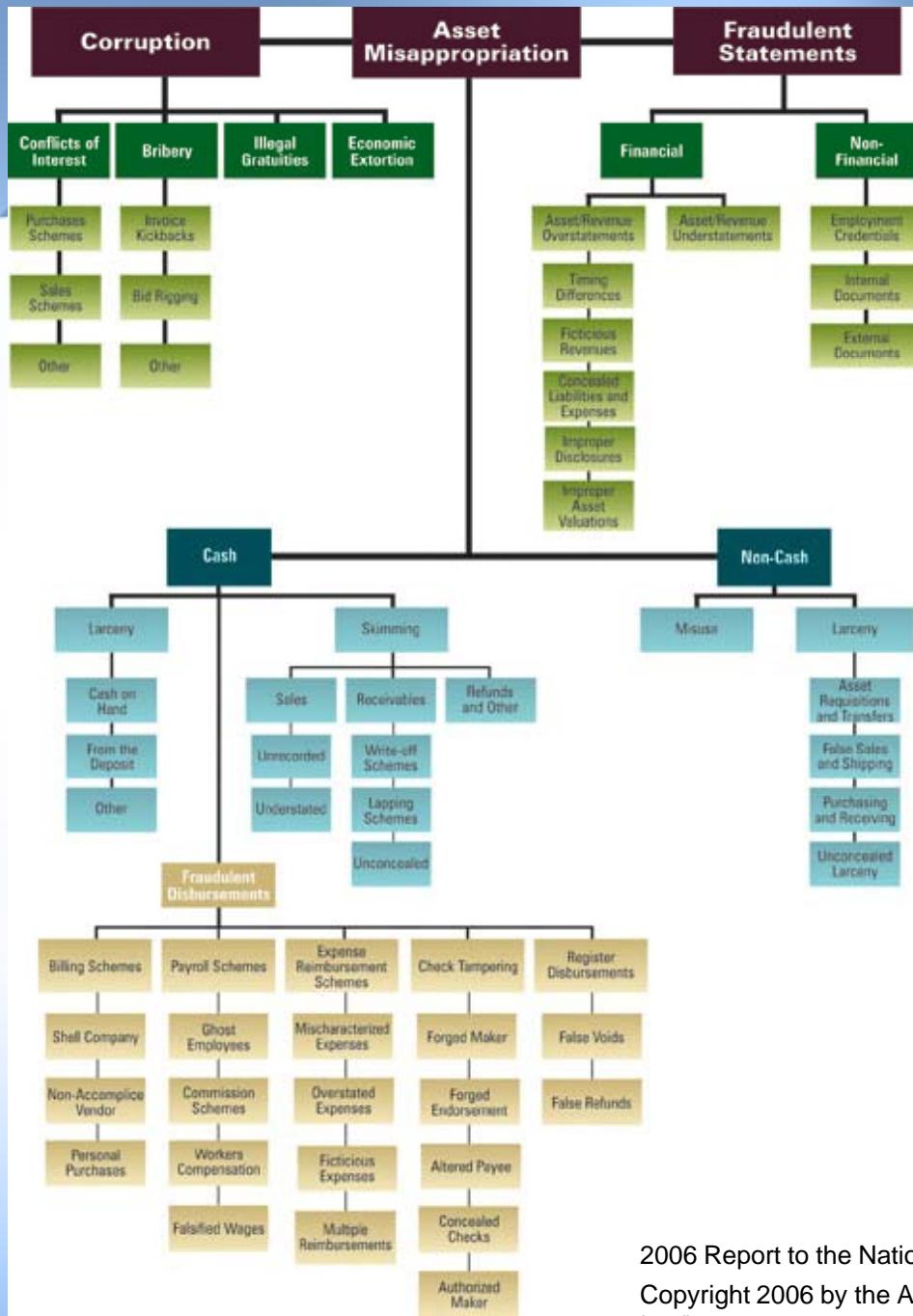


UCB Compliance Landscape

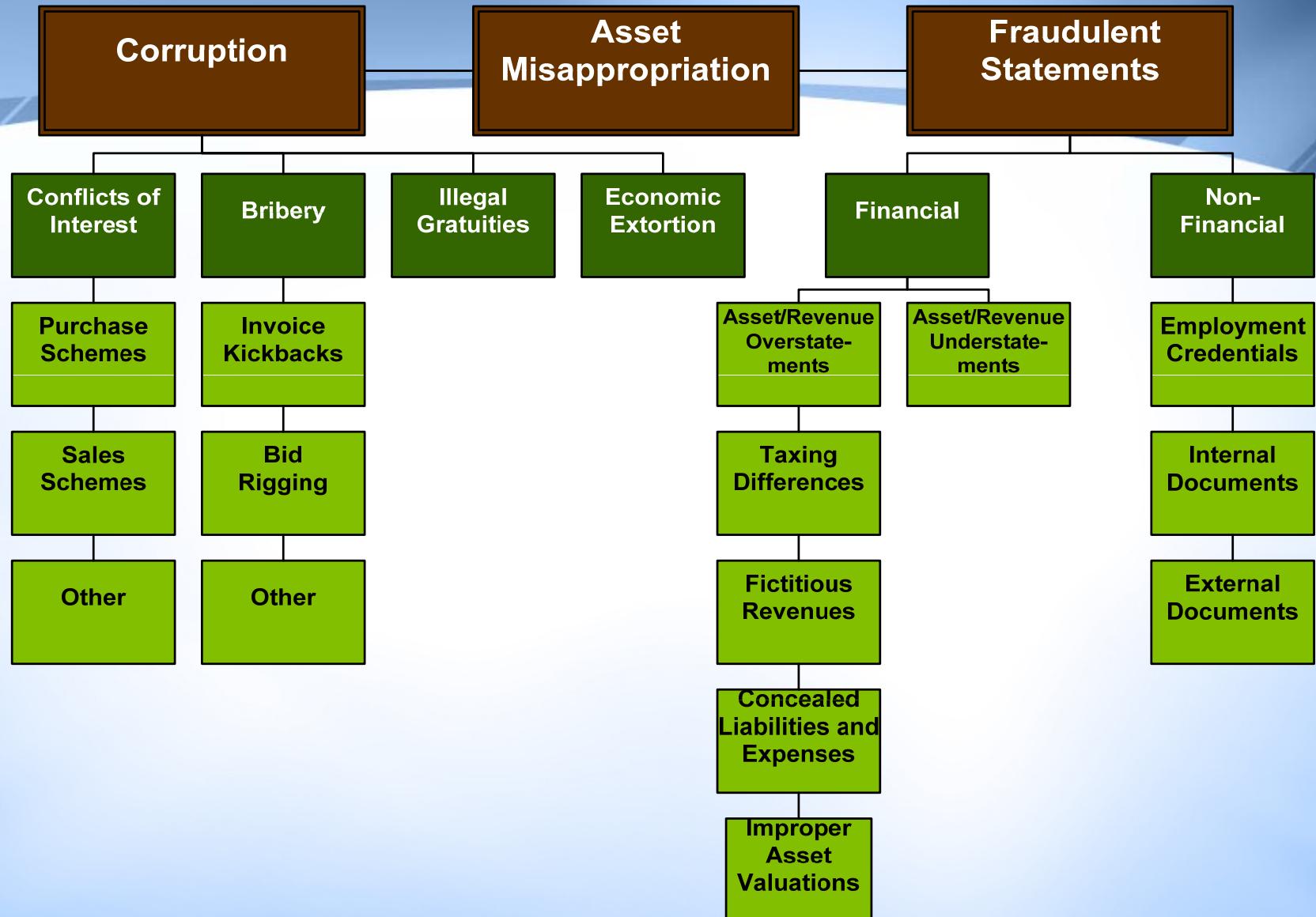


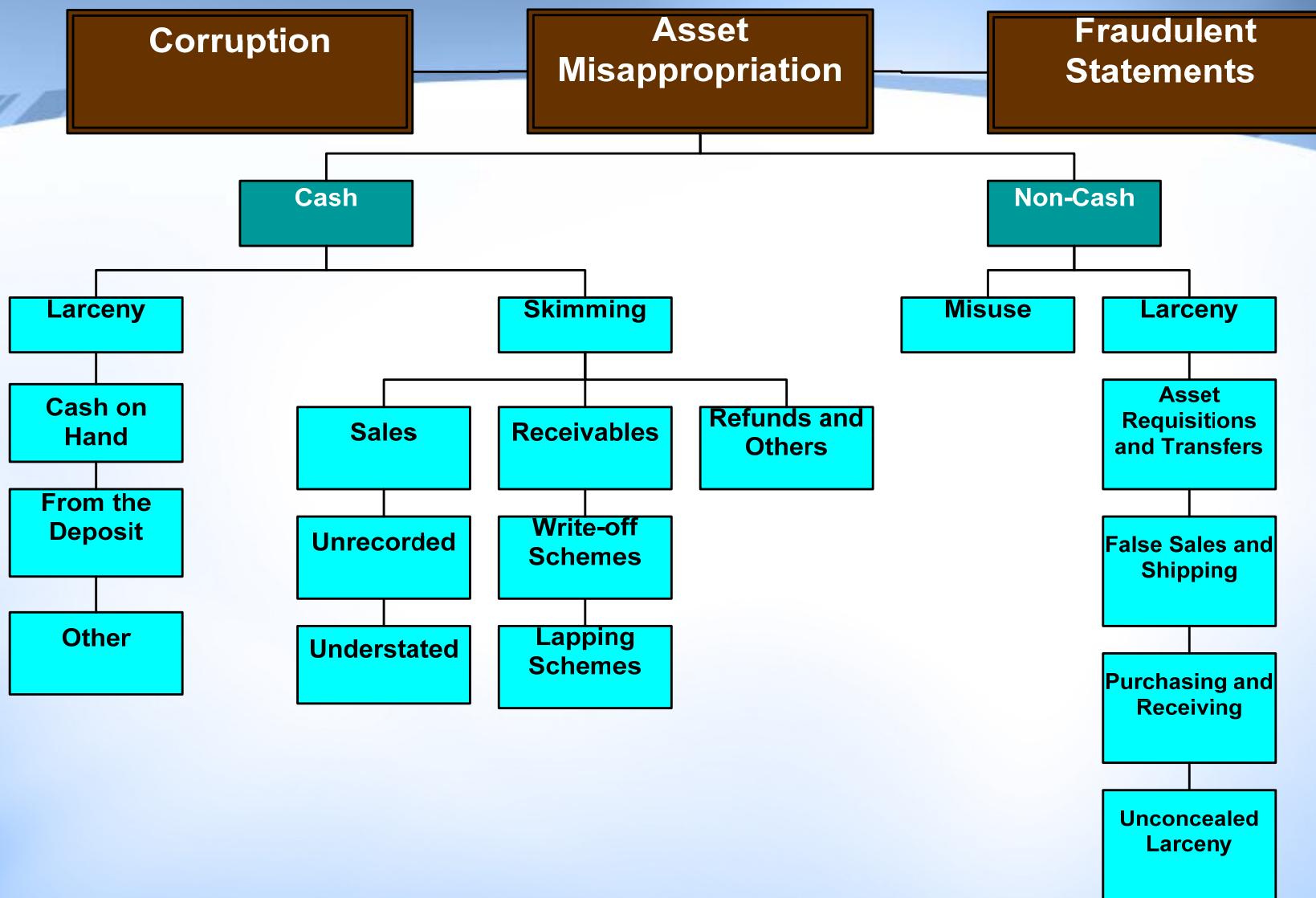
What Actions Constitute Fraud

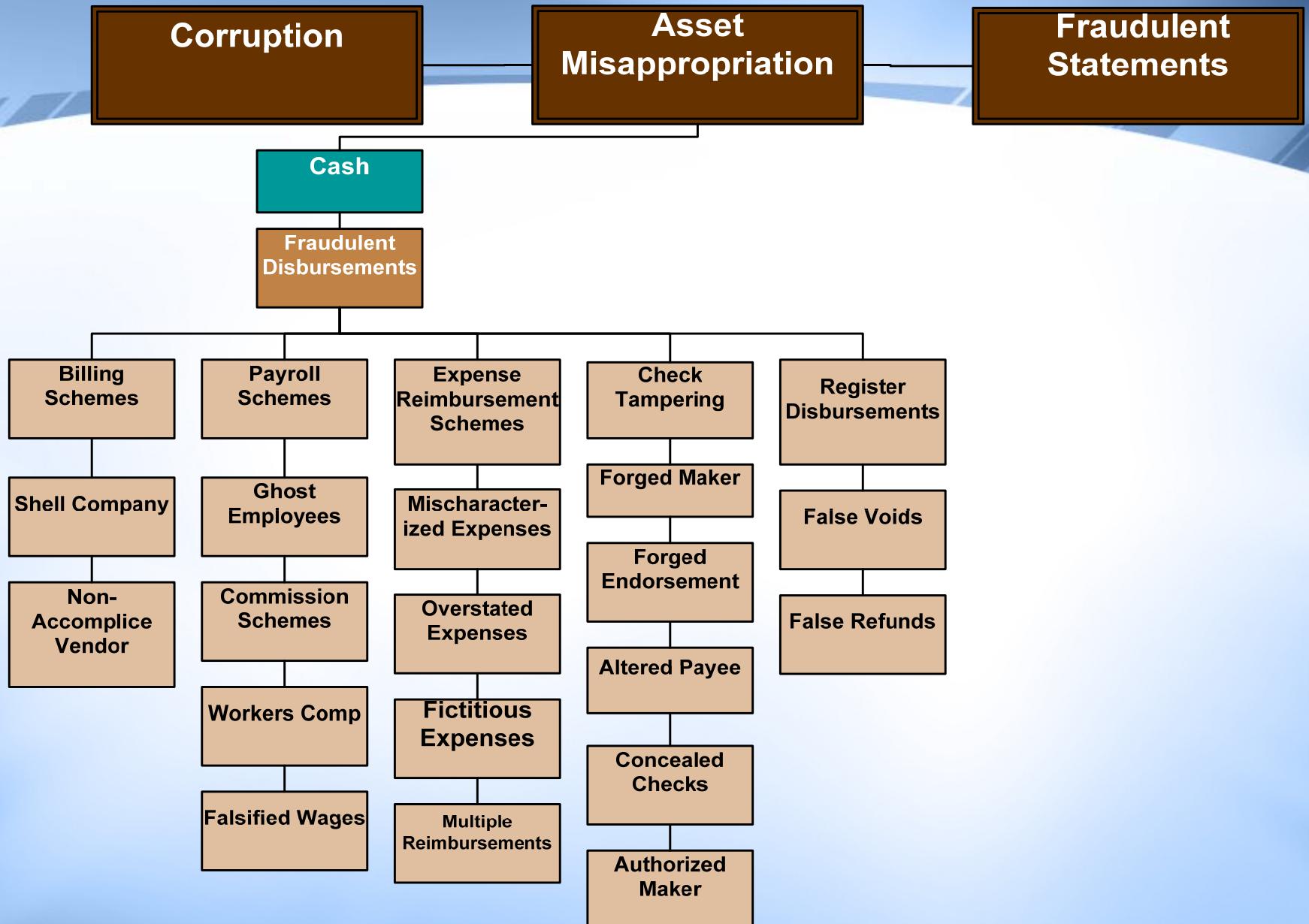




2006 Report to the Nation on Occupational Fraud and Abuse.
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Inc."







Sample Fraud Schemes and Indicators

Misappropriation of assets - Ghost employees and falsified timesheets

- Complaints (e.g. employees, students, vendors, customers, other departments)
- Intolerance of opposing views
- Single point of communication to senior management
- Autonomy over financial transactions
- Significant increase in funding

Sample Fraud Schemes and Indicators

Misappropriation of assets (use of equipment and time)

- Complaints (e.g. employees, customers)
- Significant personal business related items in workspace
- Poor justification of purchases
- Irregular work schedule with limited accountability for productivity
- Lack of work product

Sample Fraud Schemes and Indicators

Fraudulent Statements - Concealed liabilities and expenses

- Large unusual yearend adjustments
- Poor controls within the point of sale system
- Refusal to provide direct access to POS for senior manager
- Autonomy over business decisions
- Meeting sales goals regardless of changing business conditions

Sample Fraud Schemes and Indicators

Corruption - Conflict of Interest

- Employees serving in a key decision-making role for the University and third party doing business with the University
- Unusual sense of urgency every invoice marked RUSH
- Invoices for the full amount of sub-awards
- Timing of invoices
- Budgets exactly the same each year

Fraud Opportunity Checklist

Ask Yourself:

- What are the weakest links in my department's internal controls?
- What deviations from acceptable business practices are possible?
- How might a fraud perpetrator exploit weaknesses in the system of controls?
- How could a perpetrator override or circumvent controls?
- What could a perpetrator do to conceal the fraud?





QUESTIONS?



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