

**THE UNIVERSITY OF ARIZONA
DEPARTMENT OF MEDICINE
SECTION OF DERMATOLOGY
Report on Special Investigation
For the Period August 1989
Through November 1992**

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AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

DEBRA K. DAVENPORT, CPA
DEPUTY AUDITOR GENERAL

May 20, 1994

Members of the Arizona State Legislature

The Arizona Board of Regents

Dr. Manuel T. Pacheco, President
The University of Arizona

We have conducted a special investigation of the University of Arizona's Department of Medicine's Section of Dermatology for the period August 1989 through November 1992. The purpose of our investigation was to determine if public monies had been misappropriated during that period, and if the Section of Dermatology's internal control structure and its operation relevant to the Section of Dermatology's cash receipts and sponsored accounts were adequate to prevent the misappropriation of public monies.

Our investigation consisted primarily of inquiries and the examination of selected records and other documentation. Therefore, our investigation was substantially less in scope than an audit conducted in accordance with generally accepted auditing standards. Accordingly, we do not express an opinion on the adequacy of the financial records or the internal control structure of the Section of Dermatology, nor do we ensure that all matters involving the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants or other conditions that require correction or improvement were disclosed.

The accompanying report describes our finding and recommendations as a result of the investigation.

After this report is distributed to the members of the Arizona State Legislature and the Arizona Board of Regents, it becomes public record.

A handwritten signature in cursive script that reads "Douglas R. Norton".

Douglas R. Norton
Auditor General

Attachment

cc: The Honorable Stephen D. Neely
Pima County Attorney

Summary

In March 1993, the Office of the Auditor General received a request from the University of Arizona Controller's Office to investigate an alleged misappropriation of public monies by a former employee of the University's Department of Medicine's Section of Dermatology, Bonetta Evans. Evans had been indicted in January 1993 by the Pima County Grand Jury on 1 count of fraudulent schemes and artifices and 18 counts of theft by conversion.

Our investigation revealed that Evans misappropriated public monies from the University during the period June 1991 through November 1992, for which she was indicted in January 1993. In addition, our investigation revealed that Evans also misappropriated public monies from the University during the period August 1989 through March 1991, for which she had not been indicted.

The results of our investigation were submitted to the Pima County Attorney. In October 1993, Evans was indicted a second time by the Pima County Grand Jury on two additional counts of fraudulent schemes and artifices, four additional counts of theft by conversion, and ten counts of forgery.

In compliance with a plea agreement, Evans pled guilty in January 1994 to two counts of fraudulent schemes and artifices and one count of theft by conversion.

We determined that the failure by the Department of Medicine and the Section of Dermatology to establish and maintain the University's internal control structure policies and procedures was so pervasive that the aforementioned misappropriations of public monies were not readily detectable in the normal course of operations. The weaknesses in the internal control structure policies and procedures, and the circumvention of others we noted and our recommendations concerning them, are presented at the conclusion of this report.

Finding

An employee of the University's Department of Medicine's Section of Dermatology misappropriated public monies at various times from the University by means of a fraudulent scheme during the period August 1989 through November 1992.

Our investigation disclosed that in August 1989 Bonetta Evans initiated a fraudulent scheme to defraud and misappropriate public monies by depositing checks intended for the University in bank accounts outside of the University system.

In August 1989, two bank accounts were established by a physician from the Section of Dermatology to account for monies received and expended for the Society of Pediatric Dermatology's 1990 annual conference. The Society and the conference were not affiliated with the University. The bookkeeping tasks associated with these accounts were delegated by the physician to Evans to be performed by her during nonuniversity time. In exchange, Evans was to receive compensation of \$2,500 and a trip to the Society's conference in San Diego. From August 1989 through March 1991, Evans deposited six university checks into the Society's accounts. Since Evans was an authorized signer on both accounts, she was able to withdraw the diverted university monies. Both of these accounts were closed by the end of March 1991 without the discovery of Evans' fraudulent scheme.

In June 1991, Evans opened a new account at the same bank in the name of "Dermatology." Unlike the Society accounts, this account had no legitimate purpose and was used solely as a means to divert university monies. From June 1991 through November 1992, Evans deposited 28 university checks into this account. This fraudulent account was discovered by a Section of Dermatology employee in November 1992.

By means of this fraudulent scheme, Evans misappropriated public monies in the form of checks intended for the University and other monies intended for the University Physicians, Incorporated (UPI), a related nonprofit corporation, totaling \$217,435. Misappropriated monies totaling \$16,135 were returned to the University, leaving \$201,300 unrecovered. Of the total unrecovered monies, \$6,892 is due to UPI.

Approximately 95 percent of the \$217,435 misappropriated by Evans was payments for drug studies sent to the Section of Dermatology by sponsoring pharmaceutical companies. The remaining 5 percent was miscellaneous receipts, including reimbursement for surgical supplies, payments for a physician's clinic contract work, patient fees, donations, and residency training programs.

Our investigation also revealed that Evans misappropriated at least \$13,135 from the Society for Pediatric Dermatology. In addition, although Evans was an authorized signer for the Society accounts and only one signature was required, Evans forged the physician's signature on ten of the unauthorized checks.

Cause and Recommendations

Because of the failure by the Department of Medicine and the Section of Dermatology to establish and maintain the University's internal control structure policies and procedures, Bonetta Evans was able to misappropriate public monies for more than three years. The specific weaknesses in the internal control structure policies and procedures and the circumvention of others we noted during our investigation are described below.

During our investigation, it came to our attention that the weaknesses in the internal control structure policies and procedures noted below, which had facilitated the misappropriation at the Section of Dermatology, appear to exist in many of the University's departments that conduct drug studies. As of April 1993, the University had approximately 400 drug study accounts with an annual activity level of approximately \$4 million. In order to help prevent future misappropriations of these public monies, the policies and procedures recommended below that are not already addressed in the *Financial Records System (FRS) Departmental Manual* published by the Senior Vice President for Business Affairs should be formally adopted and incorporated into the *Handbook for Principal Investigators* published by the Vice President for Research. All University departments should be made aware of and required to conform to the policies and procedures necessary to properly safeguard and account for these and all other monies in their care, custody, and control.

1. The Section of Dermatology did not establish an adequate segregation of cash-handling, disbursement, and recordkeeping functions as required by *FRS Departmental Manual 8.10*. As a result, Bonetta Evans had control over sponsored monies with no supervisory review. Evans was responsible for performing all the following duties for the Section of Dermatology:
 - a. Opening and distributing the mail, which included payments from sponsors.
 - b. Sending completed routing sheets, agreements, and payments from sponsors to Sponsored Projects Services.
 - c. Preparing and approving purchase requisitions and check requests for sponsored accounts.
 - d. Reconciling FRS reports for sponsored accounts.

To properly control and safeguard sponsored monies, the Department of Medicine and the Section of Dermatology should establish and maintain control policies and procedures that adequately segregate cash-handling and disbursement and recordkeeping functions among employees.

Cause and Recommendations (Cont'd)

2. The Section of Dermatology did not establish the procedures for collecting receipts required by *FRS Departmental Manual 8.10*. Specifically, procedures which adequately restricted employees' access to the mail were not established, and a mail log was not prepared to document payments received. As a result, Evans was able to remove checks for sponsored accounts and payments related to the dermatology clinic from the mail without detection.

The Department of Medicine and the Section of Dermatology should establish and maintain control policies and procedures that restrict access to the mail to designated employees who are independent of the cash-handling and disbursement and recordkeeping functions. In accordance with *FRS Departmental Manual 8.10*, receipt of monies should be divided between two individuals: one employee who opens the mail and records the receipts in a log, and another employee who prepares a Distribution of Deposit Form (DDF) and delivers the DDF and the monies to the Bursar's Office. Also, on a regular basis, an independent employee should compare the mail log with the deposit records to verify deposit with the Bursar's Office of all monies received.

3. The Section of Dermatology instructed sponsors to send payments for drug studies directly to the Section of Dermatology. As a result, Evans had direct, unmonitored access to checks from sponsors when she distributed the mail.

The Department of Medicine and the Section of Dermatology should instruct sponsors to send payments directly to the Bursar's Office in accordance with *FRS Departmental Manual 8.10.8*. Sponsored Projects Services should forward the receipts for drug studies payments generated by the Bursar's Office in accordance with *FRS Departmental Manual 8.10.14c* immediately to the department. Checks for sponsored projects that are incorrectly sent to the department (in this case the Section of Dermatology) should be immediately delivered to the Bursar's Office.

4. The principal investigators (i.e., the physicians conducting the drug studies) did not review the FRS reports or ensure that Evans was performing the reconciliations as required by the *FRS Departmental Manual 16.3*.

Each month a Section of Dermatology employee familiar with the sponsored accounts, but independent of the cash-handling and recordkeeping functions, should reconcile the FRS reports to Bursar's receipts (see 3 above), check requests, purchase and travel requisitions, etc. In addition, this employee should compare the studies' budgets to the FRS reports to ensure that the transactions are consistent with the awards. Procedures should also be established to ensure that the reconciliations are being performed each month and reviewed by the principal investigators.

Cause and Recommendations (Cont'd)

5. Expenditures for the Section of Dermatology drug studies were often charged to FRS accounts of unrelated drug studies. As a result of this accounting practice, Evans was able to charge expenditures for studies with insufficient FRS account balances, due to her diversion of sponsors' checks, to drug studies accounts with sufficient balances. Therefore, the deficit position of the affected drug studies accounts was not evident.

Drug studies are fixed-price contracts; therefore, the sponsors do not restrict the use of the monies. However, in order to improve controls over sponsored funds, expenditures should be separately accounted for, even if not required by the terms of the contract. If expenditures relating to the project exceed the monies available in the FRS account, the overexpenditures should be transferred to the "excess" account (see 7 below). Such transfers should be documented and approved by an appropriate designated employee of the Section of Dermatology.

6. In many instances during the period covered by the investigation, the Section of Dermatology did not forward Proposal Routing Sheets to Sponsored Projects Services in advance of commencing the project as required by the *Handbook for Principal Investigators III*. For projects affected by the misappropriation, Proposal Routing Sheets were prepared at some time after the drug study began. In addition, the principal investigators did not verify that Evans completed the proposal routing sheets and obtained the necessary approvals for the proposed projects.

In accordance with the *Handbook for Principal Investigators III/2*, the principal investigator should ensure that a proposal routing sheet was properly completed and all approvals were obtained for each new sponsored project before the project begins.

7. Many Section of Dermatology sponsored accounts were not closed in a timely manner upon completion of the studies. The Section of Dermatology was aware that the sponsors' payments usually far exceeded the costs of the studies. Furthermore, the expenditure of monies remaining upon completion of drug studies is not restricted by the sponsors. Consequently, the Section of Dermatology designated these excess monies for future capital acquisitions and to defray certain costs associated with maintaining a staff surgeon.

However, due to the fact that the excess monies had not been consolidated, the Section of Dermatology could not determine or monitor the amounts available for these purposes. Had accounts been closed in a timely manner and the remaining excess monies effectively monitored, Evans' misappropriation of approximately \$200,000 of sponsored monies may have been detected.

Cause and Recommendations (Cont'd)

The Department of Medicine and the Section of Dermatology should notify Sponsored Projects Services promptly upon completion of a drug study. Sponsored Projects Services should promptly close the FRS account and transfer the remaining balance to an account for the Section of Dermatology's "excess" sponsored monies. A responsible Department of Medicine employee should be assigned to monitor these Section of Dermatology transfers and any other activity in its excess account. Departments should consolidate monies remaining at the completion of fixed-price projects into a single account for the department or separate accounts for each principal investigator.

8. The Section of Dermatology did not retain adequate supporting documentation for sponsored projects as required by *FRS Departmental Manual 17.70*.

For each drug study, the Section of Dermatology should establish a file to retain copies of supporting documentation including the routing sheet, budget, Bursar's receipts, check requests, and purchase requisitions. These documents should be used to reconcile the FRS reports each month (see 4 above). The approved monthly reconciliations and FRS reports should also be retained in this file. In accordance with the *FRS Departmental Manual 17.70*, these documents should be retained for the life of the project then forwarded to Records Retention.

9. Principal investigators at the Section of Dermatology were not familiar with the policies and procedures contained in the *Handbook for Principal Investigators*.

The head of the Department of Medicine should ensure that all principal investigators within the department are provided with a *Handbook for Principal Investigators* and instructed to review and become familiar with the policies and procedures contained therein. Subsequently, department heads should then ensure that new principal investigators are provided a copy of the handbook before they participate in any sponsored activities.

10. The University does not require written agreements for drug studies. Sponsored Projects Services accepted checks from sponsors accompanied by Proposal Routing Sheets as a basis for establishing FRS accounts on the system.

Sponsored Projects Services estimates that they processed approximately 550 of these "undocumented" checks each year. The departments that most frequently submitted "undocumented" checks to Sponsored Projects Services were Medicine (includes the Section of Dermatology), Cancer Center, Chemistry, Surgery, OB/GYN, Pediatrics, Neurology, and Pharmacy.

Cause and Recommendations (Cont'd)

Sponsored Projects Services should require a fully approved proposal routing sheet and, except for small projects, a written agreement as a basis for establishing an FRS account. Sponsored Projects Services should ensure that the agreement instructs the sponsor to mail payments directly to the Bursar. Sponsored Projects Services should notify the sponsor of the FRS account number and instruct the sponsor to send all payments with the account number recorded on the check directly to the Bursar.

For small projects (i.e., those involving only one payment), it is impractical to require a written agreement. However, in such cases, Sponsored Projects Services should require a certification signed by the principal investigator and the department head that there is no written agreement associated with the project and that the check represents a one-time payment.

11. The monthly FRS reports generated for sponsored accounts are difficult for principal investigators to utilize. The present format is not conducive to monthly reconciliations by the principal investigators who have little or no accounting experience or training.

The University should consider redesigning the reports for sponsored accounts to make them more conducive to monthly reconciliations. As an alternative, the University could provide to all principal investigators the training necessary to accurately utilize the present report format.

12. Prior to being hired by the University, Evans had a criminal record for a felony conviction of attempted forgery committed in Tucson, but did not disclose that information on the application for employment. Her application for employment also contained false statements concerning her educational background. However, the University did not conduct a background check on her.

Prior to the final decision to hire an applicant who may be handling cash or performing other duties with inherently high risks of fraud, the University should make a reasonable effort to determine if the applicant has a criminal record (i.e., conduct a background check). To enhance the efficiency and effectiveness of conducting such background checks, the University should establish a policy requiring its departments to identify job positions that involve duties which meet such criteria. Furthermore, Human Resources should coordinate efforts to determine if an applicant has a criminal record with the University of Arizona Police Department. In addition, the University should also establish minimum standards of background investigation for all applicants to whom the University intends to offer employment.

Cause and Recommendations (Concl'd)

13. Upon Evans' termination, the College of Medicine did not appropriately complete the "Termination Report" to exclude her from any future employment with the University. According to the "Termination Report" in Evans' personnel file, she would be eligible for rehire by the University in any department except the one from which she was terminated. No documentation exists in her personnel file to indicate that she was indicted for misappropriating more than \$200,000 from the University.

The "Termination Report" in Evans' personnel file should be changed to indicate that she is ineligible for rehire by any department of the University. To prevent such omissions or oversights in the future, the University should formally adopt a written policy addressing the issues involving former employees who are not eligible for rehire, including the requirement that "Termination Reports" completed for employees who separate under similar circumstances include a statement to the effect that the employee is not eligible for rehire by any department within the University.

14. Of the 28 checks diverted by Evans through the "Dermatology" account, 7 were payable to individual university physicians. As a result, these monies could have been diverted by university employees simply by endorsing the checks.

All checks received for deposit by the University or UPI should be made payable to "The University of Arizona" or "University Physicians, Inc.," as appropriate. According to *FRS Departmental Manual 8.10*, all checks received for deposit must be made payable to The University of Arizona. However, an inappropriate example is provided in the manual as "The University of Arizona, Dr. XXXXX." The policy should be changed to explicitly state that university employees' names are prohibited from appearing on checks payable to the University.