

# INTERNAL AUDIT REPORT

CITY OF MANCHESTER

NEW HAMPSHIRE



**VISTA Program**

**Internal Control Structure Failure Leads to Fraud**

Prepared by

City of Manchester, NH

Office of the Independent Auditor

**INTERNAL AUDIT REPORT  
CITY OF MANCHESTER, NEW HAMPSHIRE  
VISTA PROGRAM  
INTERNAL CONTROL STRUCTURE FAILURE LEADS TO FRAUD**

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November 1, 2007

Committee on Accounts, Enrollment and Revenue Administration  
City of Manchester, New Hampshire  
Honorable Aldermen: Pinard, Osborne, Devries, Long and Thibault

Dear Honorable Committee Members:

On October 2, 2007 this office received a call from the Finance Department. They had found some payroll checks that appear to have been questionably endorsed. An initial investigation determined that the issued checks were most likely taken by the VISTA Grants Coordinator and fraudulently endorsed. The criminal investigation was turned over to the Manchester Police Department and I started a fraud audit to determine the extent and causes of the fraudulent activity. What followed turned out to be a text book study of how a complete breakdown in the internal control structure can lead to fraudulent activity within the City of Manchester government.

It was quickly determined that the suspected fraudulent activity was limited to the VISTA program from the beginning of the current year's federal grant on October 1, 2006 through October 5, 2007. It was noted that the Grants Coordinator also collected donations for the Senior Center construction project for a short period of time. Due to this testing was extended to collection and deposit of Senior Center donations from fiscal year 2003 through July of 2006.

The audit procedures involved:

- An examination of every VISTA volunteer payroll check and every account payable check issued during the audit period.
- Every accounts payable invoice was examined and attempts were made to determine if they were valid payables.
- A sample of mileage reimbursements were tested to determine if the travel actually took place.
- A reconciliation of Senior Center receipts was examined.

## **Conclusion**

My audit has determined that a complete breakdown in the internal control structure in place at the office of the VISTA Coordinator took place and appears to have allowed fraudulent activity to take place unchecked. Testing revealed the following:

- Fifty-one VISTA issued payroll checks appear to have been fraudulently endorsed.
- Four VISTA volunteer reimbursement checks appear to have been stolen and fraudulently endorsed.
- Six invoices for conferences and supplies appear to be have been reimbursed based on forged documents.
- The VISTA Coordinator was reimbursed for 12,605 miles of travel even though he had no license or registered vehicle. A check of many of the destinations he collected mileage reimbursement for were contacted. I could find no evidence he was ever at those locations.
- The total amount of questioned costs associated with the suspected fraudulent activity and unallowable expenditures charged to the grant amounted to \$22,824.
- In several instances there is evidence indicating that the few controls in place over the program detected the fraudulent activity but the controls were over ridden by management.

The draft audit report was sent to The Manchester Police Department, The Planning Department, the Finance Department, the Health Department, the Human Resources Department and the Office of the Mayor for review and comment. Additionally copies were sent to the Corporation for Community and National Service (CNCS) State Program Specialist and the CNCS Office of Inspector General. The findings, recommendations and responses by government officials are presented in the report that follows. We appreciate the courtesy and cooperation of the staff and administration of all the departments involved in this investigation. Special mention must be made to Dawna Rooks from Human Resources, Kim Leblanc from Finance and Sharon Wickens from Finance for discovering the fraud and bringing it to my attention. I would also like to commend the Manchester Police Department for their quick response and invaluable help during my investigation.

Respectfully Submitted,

Kevin Buckley, CPA  
Internal Audit Manager

## INTRODUCTION

### AUDIT BACKGROUND

On October 2, 2007 I received a phone call from the Financial Analyst in the Finance Department, concerning problems with missing checks. Human resources received a phone call from a volunteer who works for the VISTA/Americorps program claiming she was missing a couple of pay checks. VISTA is a federal program administered by the City. The VISTA volunteers are federal employees who are paid a weekly stipend by the City through the payroll system. Checks are cut weekly based on approved time sheets. The checks are received in the Planning Department by the VISTA Coordinator. The VISTA Coordinator then passes the checks or pay remittances to the volunteers. The Financial Analyst was asked to look up the last 5 checks issued to the volunteer and give her a copy. Payroll checks are processed by Citizens Bank and transferred to electronic media. The paper check is then destroyed and Finance receives a CD of the monthly cashed checks.

When the checks were printed it was noticed that two of the five checks were endorsed with what appears to be the volunteer's signature and "for deposit to the account of Dennis Hebert" written under it. Dennis Hebert was the Grants Coordinator.

A meeting was arraigned with the volunteer to discuss this matter. The volunteer claimed that she had never seen either of the checks and it was not her signature on the back. The first check was from a week when the volunteer received two checks. When asked why she received two checks in one pay period she explained that the second check was for a week of training required prior to starting with the program. She claimed that due to a clerical error the members were not paid at the time of the training. The volunteer then told me that after her one year commitment was up she was not asked back. Her last day was on August 24, 2007. Her last check therefore should have been dated August 30, 2007. The last check issued was dated September 6, 2007. This would indicate that the check was issued for a week when she no longer was employed by VISTA.

Finance employees also advised that the VISTA Coordinator had tried to put through odd reimbursement request such as undocumented reimbursement for cash advances he claimed he had given to VISTA members and reimbursement for a conference using a questionable invoice.

At this point it became clear that a fraud most likely had taken place and the matter was turned over to the Manchester Police Department for criminal investigation. I then started a fraud audit of the VISTA program.

My audit was conducted in accordance with standards applicable to financial and compliance audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

## AUDIT SCOPE AND OBJECTIVES

Based on the preliminary investigation it was determined that the entire VISTA program would have to be audited from October of 2006 when the Volunteers were first paid by the City of Manchester until October 5, 2007 when the VISTA Coordinator was relieved of his duties. 100% of the VISTA payroll checks would be examined and 100% of the accounts payable invoices would be audited. It was also discovered that the VISTA Coordinator had collected and deposited donations for the construction of the Senior Center. This made it necessary to trace the amounts from the reconciliation at June 16, 2006 to the underlying financial records.

## BACKGROUND OF AUDITEES

The Americorps/VISTA program helps impoverished individuals and communities attain self sufficiency. Members serve full-time for a year with non-profit groups, public agencies and faith-based organizations working to fight illiteracy, improve health services, create and expand businesses, increasing housing opportunities and bridge the digital divide. Members working out of the Manchester program serve full-time for a 12 month period. Upon successful completion of their service, members receive either an education award of \$4,725 to pay for college, graduate school or to pay back student loans. Members may instead choose to receive a \$1,200 cash stipend in lieu of the education award.

During their service, members receive health insurance, training, and student loan deferment. Members also receive a modest living allowance of \$209.16 per week and \$255.22 per week for VISTA Leaders.

Americorps is administered by the Corporation for National and Community Service (CNCS). The City of Manchester administers the local program in the City for CNCS and pays the members the living allowance and stipend. CNCS reimburses the City for member payments as well as the salary, benefits and most expenses directly related to administering the program. All other member benefits are paid directly by CNCS.

At the beginning of the program the City only paid the salary and benefits of the Grants Coordinator. Beginning in October of 2006 the City took over the direct payments to the members. The program is administered by the Grants Coordinator who is the sole City employee of the program. The program which formerly was an office of the Planning Department became a program of the Office of the Mayor in October of 2006 when the City took over the direct payment of member's living allowance and stipends. During the audit period the VISTA program was still physically located in the Planning Department even though it reported to the Office of the Mayor.

# FINDINGS AND RECOMMENDATIONS

## A GENERAL DISCUSSION OF FRAUD <sup>1</sup>

In order to understand how and why this instance of fraudulent activity occurred it is important to understand the nature of fraud and the people who commit them. Most people who commit fraud are not career criminals. The vast majority are trusted employees with no criminal history who consider themselves basically honest people.

Dr. Donald Cressey, a criminologist, developed a model that helps explain why otherwise honest employees will commit fraud. According to Cressey there are three factors that must be present for an ordinary person to commit fraud. The three factors are commonly referred to as the fraud triangle and all three must be present at the same time in order for this kind of fraud to occur. The three factors are:

- Pressure
- Opportunity
- Rationalization

### **Pressure**

The first leg of the fraud triangle is that the employee must have a *perceived non-sharable* financial need. The employee must view the problem as non-sharable. The problem would be viewed as so embarrassing that they would feel ashamed to seek the help of others. Common problems include but are not limited to:

- Inability to pay one's bills
- Drug, alcohol or gambling problems
- Desire for status symbols

### **Opportunity**

The person must see some way they can use (abuse) their position of trust to solve their financial problem with a low perceived risk of getting caught.

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<sup>1</sup> Understanding Why Employees Commit Fraud, Association of Certified Fraud Examiners

## **Rationalization**

The vast majority of fraudsters are first-time offenders with no criminal past. Because they see themselves as basically honest people they must have some kind of rationalization to justify their actions. Common rationalizations include:

- I was only borrowing the money
- I was entitled to the money
- I had to steal to provide for my family
- I was under paid
- My employer is dishonest and deserves to be fleeced

The report that follows will show that all three factors were present and that they were know by City employees during the entire audit period. The many red flags that were present failed to trigger anyone to recognize that a fraud was being committed.

## **FRAUD PREVENTION PROGAMS <sup>2</sup>**

In order to prevent fraud the three factors of the fraud triangle must be addressed. While there are some things an entity can do to address Pressure and Rationalization the one factor that is truly under our control is opportunity. If the perception that there is opportunity to fraud the City is removed the instances of fraud will decrease. It needs to be stressed to all employees that preventing fraud is a high priority.

In order to prevent fraud an entity must foster a culture of honesty and high ethics. Most important to this is setting the tone at the top. Employees must see that top management takes internal control seriously. Efforts by top management to skirt controls in order to streamline processes send a message that controls are not important. This is most important for offices that are not centrally located.

An entity must constantly be evaluating its existing antifraud processes and controls. Changing technologies may render controls useless and management should be actively involved with the design and implementation of internal controls. Management should also monitor compliance with the internal controls already in place.

An entity must also develop an appropriate oversight process to include regular audits from an independent audit firm and the use of an effective internal audit function.

The Achilles Heel of any internal control system is management over ride of internal controls. This audit will show how management's over ride of existing controls and a poor internal control structure in the VISTA program led to fraud and allowed it to continue.

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<sup>2</sup> FRAUD: What You Don't Know Will Hurt You!, Frank Crawford, Crawford & Associates PC and Dave Cotton, Cotton & Company LLP

## **INTERNAL CONTROL STRUCTURE OVER THE VISTA PROGRAM**

On March 10, 2003 the City hired a Grants Coordinator whose job it was to research and find State and Federal grants for various City programs. This position was in the Planning Department and reported to the Director of Planning. The position's direct supervisor was the Planner IV who is also in charge of the CIP program. According to interviews of City employees and the federal VISTA State Program Specialist it appears that the Grants Coordinator was unhappy working for the Planning Department and wanted his to job report elsewhere. The management of the Planning Department did not find the Grants Coordinator a good fit for the department and "weren't sad to see him go" when he finally was reassigned.

The Grants Coordinator was put in charge of the VISTA program which initially only used City funds to pay for part of the salary and benefits of the Grants Coordinator. VISTA member checks were paid directly by the Corporation for National and Community Services (CNCS). The Grants Coordinator stopped functioning in the role he was hired for and spent most of his time managing the VISTA Program yet his job description or position was not changed or pay adjusted for his new position. According to various City employees the Grants Coordinator had been complaining that he was not being paid enough and thought the City was not providing enough benefits such as parking at City Hall.

Sometime around January of 2006 the Grants Coordinator approached the Mayor's Office about being moved out of the Planning Department. As early as March of 2006 the Grants Coordinator began using the Office of the Mayor in his letterhead. The Planning Department and Mayor's Office both indicated that they were aware of this. The Planning Department reported that they felt that they were being kept out of the loop on this action as they had no discussion with the Mayor's Office on moving the Grants Coordinator to the Mayor's Office.

During 2006 discussions began with the CNCS to change the VISTA program so that the City would pay the volunteers directly and then CNCS would reimburse the City. The volunteers would still be considered federal employees and the City would be acting as an agent of the CNCS. This change would take place with the acceptance of the new 2007 federal grant that started September 30, 2006, one day before the start of the federal fiscal year.

Originally the Grants Coordinator's pay was charged to the Planning Department and then transferred to the projects he was working on via work orders. When he took over the VISTA program his pay was charged exclusively to the grant.

At the September 5, 2006 meeting of the Board of Mayor and Aldermen (BMA) the CIP was amended to include the 2007 VISTA Grant with funds in the amount of \$627,081 appropriated. The new program budget was set up under the administration of the Mayor's Office. The Mayor's Office did not feel that this action transferred the Grants Coordinator to the Mayor's Office only the budget. As of September 5, 2006 the Planning Department no longer considered the Grants Coordinator their employee and stopped signing off on any payroll or accounts payable associated with the VISTA program. These duties were transferred to the Mayor's Office.

In December of 2006 The Grants Coordinator brought in managers from CNCS to a meeting with the Mayor. The CNCS managers thought due to the perceived hostile work environment at the Planning Department it would be better to physically move the program out of Planning and into another office. According to the CNCS Office they would have preferred to see him in the Manchester Economic Development Office however, they thought that the Mayor's Office would also be an appropriate place to move the program as other cities had the programs attached to the Mayor's Office.

In the Mayors 2007 Budget Address speech on March 27, 2007 he presented the idea of moving the VISTA program to the Mayor's Office. Upon passage of the budget the Mayor's Office considered the Grants Coordinator attached to the Mayor's Office on July 1, 2007 but not an employee per se.

During the months between October of 2006 and June 2007 neither the Mayor's Office nor the Planning Department considered the Grants Coordinator their employee and he essentially acted as a department of one in some regards.

VISTA payroll was controlled almost completely by the Grants Coordinator. He recruited, interviewed, hired and determined start and end dates for VISTA members. He also collected and approved their time cards, approved the payroll and collected the paychecks and pay remittances for disbursement to the members.

The Grants Coordinator also determined his own purchases, collected the invoices and sent them to the Finance Department for processing. It was not required that his invoices be approved by management prior to submittal.

The only controls in place were those at the level of the Human Resources Department and the Finance Department. The Grants Coordinator had no access to HTE so he relied of Human Resources to set up VISTA members in the payroll system and make changes to the payroll. He also had to have the Finance Department enter his invoices into the accounts payable module. He was the one to reconcile the accounts and keep track of his own budget. The Mayor's Office would approve his A900 payables report giving the approval to release the checks for payment.

The Grants Coordinator also prepared financial reports and drew down funds from the federal grants management system then reconciled the account. The CNCS had been actively trying to get the City to find someone else to drawdown federal funds as they thought he had too much control over the process. The Planning Department refused to drawdown funds for an employee they did not consider part of their department and the Finance Department did not have access to the Grants Management System and felt that it would be an internal control conflict of interest to start doing the drawdown of federal funds.

I was also informed by Planning Department personnel that the Grants Coordinator used to have a printer next to his office. Because he was constantly printing out racing forms the Printer was removed.

It appears that the three legs of the fraud triangle were present. The Grants Coordinator may have had a perceived non-sharable financial need, (gambling), a rationalization (low pay and lack of perks) and a control structure where he was given ample opportunity to commit fraud.

### **OBSERVATION 1: THE INTERNAL CONTROL ENVIRONMENT GOVERNING THE VISTA PROGRAM WAS INADEQUATE**

The US Government Accountability Office issues standards for internal control in the federal government. According to the first internal control standard, which relates to control environment, management and employees should establish and maintain an environment throughout the organization that sets a positive and supportive attitude toward internal control and conscientious management.

The standard then lists several key factors that affect the accomplishment of this goal. It appears that the City has violated the following factors.

1. An Ethical tone has been established at the top of the organization and has been communicated throughout the organization.

Top management in the City occasionally chooses to ignore policies or procedures when they become inconvenient. Recently when this office rewrote the City travel and entertainment policies several departments complained that certain procedures would be too time consuming or that their department should be exempted from a certain policy. On occasion the Board of Mayor and Aldermen grants exceptions from certain policies. This sends a message to all employees that policies can be changed or ignored.

2. Appropriate disciplinary action is taken in response to departures from approved policies and procedures or violations of the code of conduct.

The City has a policy that invoices will be paid only if the original invoice is sent to the Finance Department for payment. Reimbursement to employees should also be limited to situations where it is not possible to go through the normal purchasing procedures. Employees seeking reimbursement should also provide proof that they actually paid the vendor by showing an original receipt if paid by cash or a copy of the credit card statement if paid by credit card. The Grants Coordinator established a pattern of providing inadequate documentation for reimbursement. Each time he would be told the proper way to do it in the future but would never follow through. He never had to provide proof of payment and most invoices did not appear to be the original. Several times he was reimbursed for expenditures that could have easily gone through the normal accounts payable procedures.

3. Management appropriately addresses intervention or overriding internal control.

There is no policy of when management can over ride an internal control and how to document the over ride. As noted in the above comments the Grants Manager would provide inadequate documentation when seeking reimbursement. The accounts payable person in the Finance Department rejected some payments due to the lack of documentation or questionable

documentation. Initially she was over ridden by the acting Finance Officer and processed the claim. After the first couple of times the acting Finance Officer refused to put them through and the reimbursement was allowed by the Office of the Mayor. In all of the cases where this happened the invoices were forged.

4. Key areas of authority and responsibility are defined and communicated throughout the organization.

From October of 2006 through June of 2007 the VISTA program and the Grants Coordinator position were considered part of the Mayor's Office or part of the Planning Department depending on who you talked to. The Grants Coordinator considered himself part of the Mayor's Office as early as March of 2006. Even though it was known by employees in Planning Department that he was using the Office of the Mayor on his letter head no one attempted to correct him. For the entire audit period it appears that the Grants Coordinator was left on his own to act as a separate entity from any department.

5. Appropriate and clear internal reporting relationships have been established

As noted above it was not clear to whom the Grants Coordinator reported. At times he would claim authority he did not have and acted as if he did not have to report to anyone.

6. Employees are provided a proper amount of supervision.

The Grants Coordinator was for all practical purposes unsupervised during the entire audit period. Even when he was officially a part of the Mayor's Office he was still physically located in the Planning Department. Several of the problems may have been noticed if he had to report to a supervisor that had knowledge of his daily activities.

#### **RECOMMENDATION:**

An effective system of internal controls starts with an effective control environment. Management and employees should establish and maintain an environment throughout the organization that sets a positive supportive attitude toward internal control and conscientious management. To this end the following is recommended:

- Every department should be required to do an internal control self assessment on an annual basis. The GAO uses an Internal Control Management and Evaluation Tool towards this end. Other communities have adopted similar tools for use in their communities.
- Management needs to take internal control seriously and convey to employees that exceptions to established policy and procedures are only for limited, necessary and well documented reasons.
- Every Department should have its own set of written policies and procedures that incorporate general policy and procedures of the City into those procedures that are unique to the department. The procedures manual should be detailed enough so that in the event that key employees suddenly leave employment a new person can step in and handle the normal tasks associated with the position.

- Appropriate disciplinary action should be taken when policies and procedures are violated. In this case the first time the Grants Coordinator did not supply appropriate documentation it should have been made clear that no further reimbursements would be made without the proper documentation and then rejected all further claims. When an employee is misrepresenting himself to the public immediate action should be taken to correct the behavior.
- Over riding an established internal control should be done only in emergency situations and then only if properly documented and approved by supervisory personnel. In the case of the Office of the Mayor the over ride should be presented to the BMA.
- For ten months the Grants Coordinator was allowed to operate without clear lines of authority or supervision. When a position or program is moved from one office to another a written memorandum of understanding should be signed by both offices clearly defining the roles each office is assuming and the dates on which the changes will take effect.
- When behavior of an employee is affecting the department it is not appropriate to send the employee to a different department. This situation should have been handled in the Planning Department using the tools available through the Human Resources Department. Every year the Human Resources Department offers course on handling difficult employees and conflict resolution. These should be a requirement of all managerial employees.
- The City should establish a fraud, waste and abuse hotline. Reporting hotlines are a very effective means of uncovering occupational fraud. The 2006 Association of Certified Fraud Examiners report to the nation shows that 34.2% of occupational fraud schemes were uncovered by tips, the most common method of discovery. And, of those tips, nearly two out of three came from employees.

## **OBSERVATION 2: LACK OF SEGREGATION OF DUTIES**

### **PAYROLL**

The Grants Coordinator was allowed to do functions and procedures that were clearly incompatible. Following is a list of duties he was performing for most of the audit period.

The Grants Coordinator was in charge of advertising, accepting applications, interviewing and hiring VISTA members. When a new volunteer was hired he would have them fill out the necessary forms, collect them and send them to the Human Resources Department.

The form used to set up an employee in the Payroll System is the Employee Information Sheet (EIS). This form is used any time an employee's status is changed. The form has spaces for approval sign off by the initiating officer, department head, HR director, and the Mayor. Each one of these sign offs have an important internal control purpose. In most cases one person in the office is assigned the duties of payroll officer. This person prepares the EIS form and sends it to the department head for approval. This acts as a control so that the same person who initiates a transaction does not also approve the transaction (segregation of duties). The Grants Coordinator performed both of these functions thereby allowing him to change beginning and ending dates for employees without being detected. This allowed him have checks printed for weeks the employee did not work and so would not miss the check.

He also collected the time sheets and notified HR of any changes to payroll. He also received the checks and disbursed them to employees. A weekly payroll proof is sent to each department and approved by the department head so that HR can release the checks. Because he was considered a one person department he would not send back the signed payroll proof and the checks would be released. These functions are all designed so that one employee does not have the ability to have a check cut and then take it. If another employee received the checks and passed them out they would notice that VISTA members were not picking up all their checks.

#### ACCOUNTS PAYABLE

The Grants Coordinator was in a position that he would be able to order supplies and services, receive the invoice, approve the invoice and receive the goods or service and match to the paid invoice. This allowed him to create fake invoices and send them to the Finance Department for processing. The only real check was that the A900 proof was sent to the Mayor's Office for approval prior to the checks being released. Because the Grants Coordinator was in a separate building the Mayor's Office had no way of knowing that no goods or services were being received for these invoices.

#### FEDERAL DRAWDOWN

The Grants Coordinator handled the entire federal drawdown procedure. He prepared the drawdown documents and reports from the accounting records and transactions that he had complete control over as noted above. He would then sign on to the federal drawdown software program and initiate the drawdown. He also reconciled the drawdown to the accounting records. The segregation of duties problem was so severe that the federal VISTA State Program Specialist had been trying to get the City to have someone else do the drawdown.

#### **RECOMMENDATION:**

A proper system of internal controls segregate duties so that one person does not have the ability to initiate a transaction, approve the transaction, receive the goods or services and reconcile the books to original documents.

The smaller the department the harder it is to properly segregate duties. It makes it very difficult to approve transactions of an employee who is not physically located in the same office. When at all possible these very small offices should be combined with other offices to make segregation of duties possible within the same office.

## **RESULTS OF VISTA PAYROLL TESTING**

From the period October 5, 2006 through October 5, 2007, the VISTA program had between seventeen to twenty-three members receiving a living stipend from the City of Manchester. A majority of members had their stipend paid through direct deposit. Every week five to seven employees would receive a paper check. Whenever an employee would start they would be given a paper check for the first week. From an examination of all 378 checks issued during that time period the audit revealed fifty-one checks that were endorsed “pay to the order of Dennis Hebert”. Mr. Hebert was the Grants Coordinator in charge of the VISTA program. It has been determined that these checks are most likely fraudulently endorsed.

### **OBSERVATION 3: SUSPECTED PAYROLL FRAUD**

An examination of the checks and interviews with VISTA members has determined that the Grants Coordinator used the following methods in order to obtain the checks and avoid detection.

All VISTA members must under go a week of Pre-Service Orientation (PSO) training prior to starting their job assignments. This training is non-paid except for travel expenses reimbursed directly from the Corporation for National & Community Service (CNCS).

On July 30, 2007 the Grants Coordinator sent an E-mail to the HR department informing them that he had heard from CNCS that several members had not received payment for PSO training and could they please cut paper checks so he could distribute them to the members. It appears that all of these checks were fraudulently endorsed. Never was confirmation of the PSO training received from the CNCS directly to the HR Department. In total 16 checks were paid for PSO training. Two of the checks were paid in error to the members the rest appear to have been deposited to the Grants Coordinator’s account.

It appears that the Grants Coordinator also set members up in the payroll system a week prior to actually starting work or had them deleted from the system a week after they stopped working. On several occasions the HR Department would catch the discrepancy between the dates of the Employee Information Sheet and the request for payment. The Grants Coordinator would say that it was his mistake and he didn’t catch the error on the EIS in time. It appears that at least 10 checks were obtained in this way. It also appears that at times members would not work for a week and the Grants coordinator would not inform the HR Department and allow a check to be printed.

In all it appears that fifty-one checks were obtained this way with a Gross value of \$10,205.26. The net check amount was for \$9,959.04. An additional two checks were cut for PSO training with a value of \$ 418.32 and were cashed by the employee in error. One final check was allowed to go through by the police and was cashed by the member with a value of \$418.32. These were funds she was not entitled to.

Questioned costs	\$11,041.90
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**RECOMMENDATION:**

It appears that the irregularities were caused by a breakdown in the internal controls in both the VISTA program (see observation 2) and the Human resources Department. The HR department should have asked for documentation from the CNCS for the PSO training. When the difference between the EIS date and check date were questioned confirmation from the VISTA member should have been obtained. The HR Department should revise their payroll procedures in order to require outside confirmation for these kinds of payroll changes. Due to the nature of the internal control problems at the VISTA program level, it would have been difficult for HR to detect the majority of the bad checks.

## ACCOUNT PAYABLE TESTING

During the audit period the VISTA program incurred \$15,505.26 of “other project costs” paid through accounts payable. 100 % of the invoices and checks were examined to determine if all payments were proper and allowable under the federal program. The following errors and fraudulent activities were detected during out testing:

### **OBSERVATION 4: SUSPECTED FRAUDULENT ACCOUNTS PAYABLE**

#### Fraudulently endorsed checks

Testing revealed four checks that were endorsed “pay to the order of Dennis Hebert”. Dennis Hebert is the Grants Coordinator in charge of the VISTA program.

The first check was a reimbursement to an employee of the Corporation for National and Community Service (CNCS). The reimbursement was paid in two checks, one for \$24 and one for \$216. The \$24 check was cashed by the CNCS employee and the larger check was endorsed “pay to the order of Dennis Hebert”. Because she had not received full payment from the Grants Coordinator the bill was never paid. In the following month the vendor contacted the Grants Coordinator and the invoice was paid a second time to them.

The three other checks were reimbursement requests put in on behalf of VISTA members for mileage and supplies. They also appear to have been fraudulently endorsed.

Questioned costs	\$729.83
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#### Lack of proper documentation and unallowable costs

Two invoices are being questioned as unallowable to the federal program.

The Grants Coordinator was billed by the Planning Department \$800 for the program’s share of office expenses such as paper, phone use, printer use, etc. The program has no approved cost allocation plan with the federal government for these expenses and they may not be allowable under the grant.

Also charged to the grant is \$889.08 for the programs share of the Grants Coordinator’s personal cell phone. The only documentation provided was the total pages for one year’s billing with the details of phone calls omitted. This should not have been allowed for reimbursement due to inadequate documentation. Without the detail it is impossible to determine how many calls were personal and how many related to the program.

Questioned costs	\$1,689.08
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Forged invoices/ lack of proper documentation

An invoice was paid for program guides and materials used by the volunteers and provided by the CNCS Resource Center. From looking at the CNCS website it was noted that the order form provided by the Grants Coordinator was not the official form from the website and that per the real order form there is no charge for any materials ordered. It would appear that the order form is fraudulent.

Questioned costs \$390.00

An invoice was paid for a workshop put on by the CNCS Boston Region 1. Per the CNCS Atlantic Area Manager CNCS did not conduct any such workshop on that date or has ever conducted any such workshop.

Questioned costs \$435.00

An invoice was paid for a workshop at Southern NH University on December 16, 2006. The invoice claims the Grants Coordinator and 4 VISTA volunteers attended the workshop. SNHU had no record of any workshop on campus on that date and one of the volunteers who was contacted by phone claimed he checked his date book and was out of town on that date. December 16, 2006 was a Saturday making it unlikely that a seminar was held then. Another volunteer remembers going to a workshop of that name in Concord but was not sure of the date.

Questioned costs \$750.00

An invoice was paid for a seminar at Dartmouth College. Per the Director of Cultural Events he could find no evidence that this conference ever took place.

Questioned costs \$ 375.00

An invoice was paid for a conference held at the University of NH. Per a representative at the College of Health and Human Services there was no evidence of the conference being held there.

Questioned costs \$ 475.00

An invoice was paid for a workshop held at Boston University. Per the International Affairs Office of Boston University they could find no record of the workshop being held. They also noted that the date was the day before commencement when it was highly unlikely that any workshops would have been held.

Questioned costs \$ 575.00

An invoice was paid for the AVRVM 2007 National Conference in Burlington Vermont. This was a two day conference that the Grants Coordinator also charged round trip mileage for both days of the conference. Per the AVRVM website this was an actual conference held in Vermont on that date but I was unable to get any answer from the organization of the Grant's Coordinator's attendance

or payment for the conference however, the State Program Manager from CNCS talked to people from her office who attended the Conference and knew the Grants Coordinator but did not see him at the conference. Because no backup documentation was presented to indicate that he actually paid or attended the conference the entire bill is questioned.

Questioned costs \$ 395.00

All invoices noted above looked questionable. Some were print screens of an on-line registration prior to being sent to the organization. After printing it is possible it was never sent. Some invoices were said to have been paid in cash and some by credit card. The Finance Department did not require any proof such as an official cash receipt or credit card statement to prove that the invoice was actually paid. The woman in charge of processing accounts payable questioned several of these invoices for inadequate documentation and was over ruled initially by the acting Finance Director and later by the Mayor's Office. Seven invoices were reimbursements to the Grants Coordinator for items that should have gone through the normal accounts payable process which would have enabled payment to be sent directly to the vendor.

**RECOMMENDATION:**

- The Finance Department should follow long standing City policy and only pay on original invoices.
- When conference registration is made via the internet the confirmation of acceptance from the organization should be required as well as proof of actual attendance, such as a certificate of attendance. A print screen of the registration is not acceptable documentation
- When reimbursing an employee proof of actual payment such as an official cash receipt or credit card statement should be obtain prior to reimbursement.
- Whenever possible payment should be made directly from the City to the vendor. Reimbursement to employees for these types of expenditures should be strongly discouraged

**OBSERVATION 5: SUSPECTED FORGED MILEAGE REIMBURSEMENT DOCUMENTS**

During the audit period the Grants Coordinator submitted nine requests for mileage reimbursement. One additional mileage reimbursement request was discovered from July 19, 2006 that was charged to the 2006 VISTA grant. Total mileage claimed was for 12,605 miles with a total reimbursed cost of \$5,968.64. During interviews with Planning Department personnel it was revealed that the Grants Coordinator did not have a valid driver's license. It was confirmed by the Manchester Police Department that he had no license during the entire audit period. It was also noted that he did not have a vehicle registered in his name.

The Grants Coordinator claimed mileage from as far away as Albany NY for a conference. The majority of his trips were to Concord, NH for various meetings, conferences and workshops. In all he claimed 34 trips to the Concord area. Most meetings to Concord were to the Corporation for National and Community Service (CNCS). I spoke with the State Program Specialist at CNCS and

she informed me that there was no need for the Grants Coordinator to be traveling this much and she did not recall seeing him in her office that many times. She did recall that he went to the Tri-State meeting in Concord but she picked him up and drove him there. On April 5, 2007 the Grants Coordinator was reimbursed for mileage to the Tri-State meeting in Concord.

He also claimed reimbursement for trips to various college campuses for recruiting and seminars. Keene State College, Plymouth State College, University of NH and University of Maine officials were contacted to determine if there was recruiting done at the campuses on the dates noted on the travel reimbursement form. None of the campuses could find evidence that the Grants Coordinator conducted recruiting on the campuses on those dates nor were any seminars, conferences or meetings that would appear to meet the needs of the program offered on those days.

**RECOMMENDATION:**

The New City of Manchester Business Expense Policy requires that all City employees using City vehicles or personal vehicles must provide evidence to the department head of a valid driver's license annually. The mileage reimbursement form should be changed to provide a certification from the department head that the employee has shown such evidence. No reimbursement of mileage should be allowed with out the signed certification.

Department heads should be required to annually request the driver's records of all employees who use a vehicle when conducting City business. All drivers using personal vehicles to conduct city business should also provide proof of adequate insurance coverage.

## CITY OF MANCHESTER VISTA PROGRAM

### SUMMARY OF QUESTIONED COSTS BY TYPE OF ERROR FOUND

FRAUDULENTLY ENDORSED PAYROLL CHECKS	\$ 10,205.26
FRAUDULENT CHECKS CASHED BY MEMBERS	\$ 836.64
FRAUDULENTLY ENDORSED A/P CHECKS	\$ 705.83
SUSPECTED FORGED INVOICES	\$ 3,395.00
SUSPECTED FRAUDULENT MILEAGE REIMBURSEMENT	\$ 5,968.64
DOUBLE PAYMENT	\$ 24.00
UNALLOWABLE FEDERAL EXPENSE	\$ <u>1,689.08</u>
TOTAL QUESTIONED COSTS	\$ 22,824.45

### SUMMARY OF QUESTIONED COSTS BY PROGRAM

VISTA 2007 GRANT	\$ 21,744.93
VISTA 2006 GRANT	\$ 273.81
CDBG 2007 GRANT	\$ 310.75
MOORE CENTER COST SHARE	\$ 208.11
CITY CASH	\$ 286.85
TOTAL QUESTIONED COSTS	\$ 22,824.45

## **AUDITEE RESPONSES**