WHISTLEBLOWER’S ETHICAL JOURNEY

A Real-Life Case Study on the Discovery of Fraud, Investigative Success, the $2.3 Million Payback, and the Retaliatory Consequences of Reporting Wrongdoing
Disclaimers: Some Ideas to Keep in Mind

✓ Information summarized in the presentation includes published research, documents, articles, interviews, and recollections.

✓ The presenter is not an auditor, accountant, or attorney. The presenter is a scientist.

✓ The presenter would like to acknowledge the many professionals who worked on this case, including: university internal auditors, investigators, campus police, and federal agents.

✓ Events in this presentation are factual. Some names of those involved have been changed.

✓ Viewpoints expressed in this presentation do not necessarily represent the official position of the University of California.

Presentation Outline

1 – Discovery of fraud
2 – Reporting fraud
3 – Investigation
4 – Retaliation
Part 1
Discovery of Fraud

Background: University Career

- Faculty (33 year academic)
- Scientist in the field of nutrition
- Director (statewide program)
- Federal funding ($14 million annual budget)
Discovery

Budget Error

✓ $60K project budget
✓ Increased to $210K
✓ $150K error?
✓ Handwritten note
ALARM!

Internal alarm leads to action

- Check the office files
- Files were locked
- Where’s the key?

Red File Folder Contains Evidence
Purchase Order in Red File

Numerous Red Flags

- Inappropriate approval
- No separation of duties
- Vague description (Canon Optura 600)
- Expensive ($1400)
- Vendor (Fry’s Electronics)
- Handwritten note (‘Pick Up’)

Moral Dilemma
What is my responsibility?

- As the director?
- As an employee?
- To the university?
- To the government?
- To the department chair?
- To the accused?
Reporting Misconduct at the University

Policy dictates to report to supervisor
But what should one do if their supervisor doesn’t take action?

Ask Questions

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Chair’s Response to Wrongdoing

✓ “No big deal”
✓ “Everyone does it”
✓ “You’re out of step”
✓ “People are complaining about you”
✓ “I thought she was your friend”

Reporting Result

Silence: Nothing happens!
And the evidence?
What happens to the evidence?
Deposited into the Chair’s Personal Vault!
Response of Supervisor: SILENCE

- Misuse not taken seriously
- Refusal to report upward
- Protecting the accused
- Reporter threatened: Keep quiet or else!
- Disposition of evidence: Hide it!
- Action taken? None

Response of Accused

- Employee appears contrite and works hard
- Employee takes responsibility
- Employee is monitored
- Employee follows the rules
Is this enough?

Monitoring Fails to Stop Accused

- Accused has staff member order purchase
- Accused approves order
- Letter of warning issued
- Supervisory responsibility suspended
A Tip from Staff Member

Travel Fraud!

- Fictitious travel allegation
- $800 per month
- Two plus years
- Loss of $20,000

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Response of Supervisor

New department chair refuses to report upward

Moral Outrage!
Blow the Whistle!

Whistleblower Report

Misuse of government property
Embezzlement
Travel fraud
Part 3

Investigative Questions

- Who puts employee on leave?
- Who secures the evidence?
- Who interviews the witnesses?
- Who begins the investigation?
Answers

- Who puts employee on leave? **THE WHISTLEBLOWER**
- Who secures the evidence? **THE WHISTLEBLOWER**

More Evidence in Red Folder!

During leave notification, the accused tried to take a file folder. She unlocked her desk drawer, took out a red folder, and put it in her box of personal belongings.
What was found?

FORGERY

Problems in Securing the Evidence

- Forgery
- Embezzlement
- Travel fraud
- Letters of warning
- Confession
- Repayment check
- Taking responsibility email

No response by high level official at dean’s office!
Retaliation!

Hours later: Office broken into and ransacked

Part 4
Waiting for the Investigation

Whistleblower waits and waits and waits for the dean to take action

![Clocks](image)

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Whistleblower Under Investigation

Risk Associated with Reporting Wrongdoing

- Dean serves whistleblower at home on a weekend
- Threatens: KEEP QUIET
- No safeguards for whistleblower
- Fraud investigation stalled

![Risk](image)

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Retaliation Questions

- Why was whistleblower falsely accused?
- Why was no action taken after the whistle was blown?
- Why is whistleblower under investigation without evidence?
- Why did the accused’s report of misuse get more attention?
- Why was the evidence not provided to the compliance professionals?

Internal Auditing Takes Action

- Whistleblower meets with Internal Auditors
- Safe haven found
- Internal Auditors secure evidence
- Internal Auditors interview whistleblower
- Internal Auditors promptly investigates
Multiple Investigations

- Campus Internal Auditing
- Campus Investigators
- Campus Police
- Special Agents from Office of the Inspector General (OIG)

Warrant Served

- 300 invoices
- 100 travel vouchers
- Search warrant issued
- Home searched
- “Goods” located in garage
- $160,000 value
Media Exposure Leads to More Retaliation

- Petition to be removed from job
- False accusation of violence
- Car tire tampered
- Shoved by higher-up

Does Retaliation Stop?
Safeguards Are Needed

The Ethics Resource Center (ERC) reports that over 21% of those who reported misconduct experienced retaliation*

This calculates to 6.2 million workers


Fraud Findings:

$2.3 Million Payback to Government

- Embezzlement of $160,000 substantiated
- Travel fraud of $25,000 substantiated
- Fraudster pleads guilty (2008)
- Fraudster serves time in prison (2009)
- Misappropriation by chair ($150,000)*
- Undocumented time claim by chair ($400,000)
- Undocumented time claims from others ($1.544 million)

* $150K for ‘chair’ on budget spreadsheet for unapproved research signed off by fraudster
Evidence of Collusion

- Chair approved employee’s fake trips (254 trips = $25K)
- Employee approved costly purchases for chair ($500K)
- Employee approved payroll transfer for chair’s employees ($150K)

Rationalizations Used by Fraudsters*

✓ “No big deal – everyone does it”
✓ “We are helping the organization”
✓ “No one was hurt”
✓ “The government is cheating us”
✓ “No one’s paying attention to the controls”
✓ “There’s widespread corruption in our organization”

Why Retaliate?

If fraud was conducted by one subordinate employee working alone there would be no reason to retaliate. **Retaliation may be an indicator that higher-ups are involved.**

Involvement of Higher-Ups

- Failed to put accused on investigatory leave
- Failed to secure evidence of misuse of federal funds
- Failed to lock computer so that evidence cannot be destroyed
- Failed to report wrongdoing to compliance professionals
- Failed to report break-in to campus authorities

**Failure to act after fraud report = Retaliation**
Steps to Take BEFORE, DURING and AFTER

BEFORE: TRAIN SUPERVISORS
✓ They need to know what action to take when receiving a report of wrongdoing

DURING: INVESTIGATE PROMPTLY
✓ The reporter needs to be protected

AFTER: COMMUNICATE FINDINGS
✓ Take correction action and update policy and protocols

Ethics Matter!

▪ Improves trust
▪ Improves employee morale
▪ Increases willingness to report
▪ Reduces misconduct
Improve Institution Integrity by Preventing Retaliation

- Retaliation is a predictable outcome
- Retaliation is a second form of misconduct
- Retaliation is costly (resources and investigation time)
- Workplace ethics improves employee morale


Remember

The ethical culture of an institution is a significant safeguard to protect employees from retaliation
Thank You!

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