

Northern Arizona University **Theft and Misuse of Public Monies**

CONCLUSION: As part of its responsibility to prevent and detect fraud, Northern Arizona University (University) management took appropriate action by reporting a fraud allegation to both its police department and the Office of the Auditor General (Office). The university police department subsequently requested our Office to investigate the allegations of financial misconduct by Edwin Talley, former university postal services manager, and we determined that from July 1997 through January 2013, Mr. Talley used fraud schemes to embezzle public monies totaling \$354,902. The embezzled monies came from university revenues that consisted primarily of state appropriations and students' tuition and fee payments, and should have been used to pay for services provided to university students. We have submitted our report to the Coconino County Attorney's Office, which has taken criminal action against Mr. Talley resulting in his indictment on six felony counts.

Mr. Talley embezzled \$354,902 of university monies by orchestrating two fictitious vendor schemes

During this 15½-year period, Mr. Talley may have violated state laws related to theft, misuse of public monies, fraudulent schemes, and money laundering when he caused the University to issue 245 checks and make 12 purchasing card payments totaling \$354,902 to two fictitious vendors he created. The majority of these checks were fraudulently endorsed and deposited in a credit union account he jointly held with another person, and monies were generally withdrawn or transferred to one of Mr. Talley's separately held bank and credit union accounts within a few weeks. The purchasing card payments were directly credited to another of Mr. Talley's bank accounts. All of the embezzled monies were commingled with other monies and spent by Mr. Talley for his personal purposes. To orchestrate and help conceal his schemes, Mr. Talley falsified information in the University's accounting software, submitted fictitious invoices, and fabricated purchasing card records.

Investigation highlights

Former Northern Arizona University postal services manager Edwin Talley:

- Embezzled \$345,902 by paying himself through fictitious vendors.
- Falsified computer data and purchasing card records, and submitted fictitious invoices in order to conceal his embezzlement.

Former university officials failed to safeguard and control university monies

Mr. Talley embezzled this money by abusing his authority as university postal services manager, a position he held for over 36 years. He also took advantage of former university officials' poor oversight of his activities. In particular, management did not monitor or take steps to ensure employees were appropriately following policies and procedures designed to protect public monies. Accordingly, management was unaware that employees falsely verified the receipt of postal supplies never received and improperly shared their accounting software login credentials. Additionally, management did not adequately train employees to investigate invoice anomalies or reconcile purchasing card reports to bank software, either of which actions could have revealed Mr. Talley's fraud scheme.

Although the University took corrective measures, university officials can take additional actions to improve control over public monies and help deter and detect fraud

With the 2012 implementation of new accounting software, university officials improved certain internal controls which, when combined with a university-wide review of purchasing card activity, led to their discovery of Mr. Talley's fraud schemes. In addition, in the time since the Office's investigation began, management reported that they implemented other improvements to controls over university monies such as adding purchasing card software that disallows purchasing card users from manipulating activity statements. Management also implemented a new conduct, ethics, reporting, and transparency program, which outlines employees' legal and ethical obligations to the University. Finally, management also conducted an employee training regarding internal controls and financial transactions, and mandated that employees not share their login credentials.

Recommendations

Although the University took corrective measures and no internal control system can completely prevent dishonest behavior such as Mr. Talley's, the following recommendations are additional actions university officials can take to improve control over public monies and help deter and detect fraud. Specifically, university officials should:

- Perform periodic reviews on a random and unannounced basis to ensure that invoiced goods marked as received in the accounting software are actually physically located and accounted for.
- Continue to require employees to sign statements acknowledging their understanding and acceptance of university policies concerning employment. Additionally, consider requiring all employees to separately acknowledge their understanding and acceptance of the university policy that prohibits the sharing of login credentials and outlines employees' responsibilities for protecting and locking their computer or work stations when not in use.
- Periodically assess whether controls over the University's purchasing process are functioning effectively and as designed, and continue to provide training to those employees responsible for making and authorizing purchases. Likewise, ensure that the University continues providing training to employees involved in the purchasing process. That training should include guidance on how to review vendor invoices for accuracy and appropriateness, as well as for anomalies that should be investigated. Additionally, university officials should consider including criteria in these employees' performance evaluations regarding their adherence to university purchasing procedures.