



Ralph Campbell, Jr.
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet <http://www.osa.state.nc.us>

June 24, 2002

Dr. James Moeser, Chancellor
University of North Carolina-Chapel Hill
103 South Building
Campus Box 9100
Chapel Hill, NC 27599

Mr. Eric Munson, President and Chief Executive Officer
UNC Hospitals
101 Manning Drive
Chapel Hill, NC 27514

Dear Dr. Moeser /Mr. Munson:

In May 2002 we received an allegation through the State Auditor's Hotline that payments had been made to a business using the name Copy Center in Madison, Wisconsin, for copier toner that was never ordered or received.

We have completed a special review of this allegation. The following findings and recommendations are based on interviews with employees of UNC Hospitals and the University of North Carolina-Chapel Hill (UNC-Chapel Hill) and examination of relevant records.

UNC Hospitals (Schedule 1)

From Dec. 1, 1999 to March 26, 2002, eight checks totaling \$6,072 were issued to a business using the name Copy Center in payment of invoices for copier toner. Department personnel stated they did not order copier toner from Copy Center. They also stated they never received copier toner from Copy Center. The manager of the UNC Hospitals Receiving Department said there were no records of any shipments received from Copy Center.

When contacted, Copy Center could not supply confirmation of the orders. They stated that all the orders were placed verbally. They did provide copies of five UPS Delivery Notifications showing five parcels had been delivered to UNC Hospitals and the UNC-School of Medicine during the months of March, April and May of 2002. The Delivery Notifications do not indicate what was delivered. In addition, seven of the eight payments to Copy Center were prior to March of 2002 and no documentation has been supplied to support the delivery of toner during that period.

Dr. James Moeser, Chancellor
Mr. Eric Munson, President and Chief Executive Officer
June 24, 2002
Page 2

Six of the eight payments to Copy Center were authorized by the program director of the UNC Hospitals Spine Center. The Spine Center program director said a representative of Copy Center told her that the invoices for copier toner were connected to the copier service provided through Carolina Copy (a copier service of the University of North Carolina). Carolina Copy personnel stated that there is no connection between their service (which includes providing copier toner) and Copy Center.

The Spine Center program director and employees of other departments said Copy Center was very persistent in its efforts to obtain payment of invoices. They said a copy center representative threatened to turn their accounts over to a collection department if invoices were not paid in a timely manner.

UNC-Chapel Hill (Schedule 2)

From August 15, 2000 to April 25, 2002, six checks totaling \$4,725 were issued to Copy Center for copier toner. Representatives of the UNC-School of Medicine authorized four of the six invoices for payment to Copy Center. The Dean's Office of the School of Education authorized the other two invoices for payment. Representatives of the School of Medicine and the School of Education said they did not order copier toner from Copy Center. A representative of the Orthopedics Department of the UNC-School of Medicine confirmed that two bottles of copier toner were received from Copy Center in May 2002, but emphasized that it was not ordered. The Orthopedics Department received an invoice for four bottles of toner in May 2002 but this invoice has not been paid.

Invoices from Copy Center

One of the invoices received from Copy Center is included herein as an Exhibit. There are several aspects of this invoice that appear unusual or inconsistent with standard invoices. In addition, the amount billed for copier toner was significantly higher than the amount quoted for the same copier from a local vendor.

- The term FOB is placed in the "ship via" block. One would expect a shipping method to appear in this block. The term FOB or "free on board" is generally associated with the terms of sale.
- The customer number is an employee's phone number.
- There is no purchase order number.
- There is no inventory item number.

Dr. James Moeser, Chancellor
Mr. Eric Munson, President and Chief Executive Officer
June 24, 2002
Page 3

- In the description block, there is no manufacturer listed, just an equipment model number.
- Copy Center billed UNC Hospitals \$812.00 for a case of toner for a Ricoh 7950 Copier. A local vendor said they could provide a case of toner for the same copier for \$528.00, a difference of \$284.00.

Response from Copy Center

As noted above, the owner of Copy Center said he received verbal orders for copier toner from representatives of UNC Hospitals and UNC-Chapel Hill and that copier toner was in fact delivered. We asked for substantiation of these orders. The owner of Copy Center said that he could not provide any proof of the verbal orders. He also said that the “UNC records” had been destroyed because he was no longer doing business with the university. We also asked the owner of Copy Center if he used other methods of shipment in addition to UPS. He said that Copy Center often used its own fleet of trucks to ship supplies to customers. This response appeared inconsistent with the fact that Copy Center is apparently located in a private home in a residential neighborhood.

Internal Control Issues

Every payment to Copy Center from UNC Hospitals and UNC-Chapel Hill was authorized through the use of a check request. Check requests provide authorization to pay for contractual services and other types of expenditures that generally do not require purchase orders or receiving reports.

Effective internal control over disbursements generally includes a procedure to match quantities and dollar amounts on purchase requisitions, purchase orders, invoices, and receiving reports before checks are issued to vendors. In the absence of receiving reports that document the receipt of goods from a vendor, accounting personnel rely on department personnel to verify the receipt of goods before issuing payments to vendors.

Recommendations

- All disbursements related to the purchase of goods should require evidence of receipt. This evidence should be in the form of a receiving report or other document that confirms the receipt of goods. Copies of receiving reports or other evidence of receipt should be maintained on file at the department level.

Dr. James Moeser, Chancellor
Mr. Eric Munson, President and Chief Executive Officer
June 24, 2002
Page 4

- Departments should utilize purchase requisitions to facilitate the issuance of purchase orders whenever possible. The use of purchase requisitions and purchase orders generally improves purchasing efficiency and facilitates vendor authentication by creating a dialogue between departments and purchasing personnel and potential vendors.
- Personnel responsible for payment authorization should obtain a thorough understanding of contractual services within their departments to minimize the risk of paying an illegitimate vendor for what appears to be a legitimate product or service.
- UNC Hospitals and UNC-Chapel Hill should initiate legal action to recover the payments made to Copy Center for the copier toner that was never ordered or received.

We are presenting these findings and recommendations for your review and written response. The purpose of the response is to allow you the opportunity to outline any corrective actions taken or planned. We request the delivery of your written response by July 10, 2002.

General Statute §147-64.6(c)(12) requires the State Auditor to provide the Governor, the Attorney General, and other appropriate officials with written notice of apparent instances of violations of penal statutes or apparent instances of malfeasance, misfeasance, or nonfeasance by an officer or employee. In accordance with that mandate, and our standard operating practice, we are providing copies of this management letter to the Governor, the Attorney General, and other appropriate officials.

If you have any questions or wish to discuss this matter further, please contact us. We appreciate the cooperation received from the employees of UNC Hospitals and UNC-Chapel Hill.

Sincerely,



Ralph Campbell, Jr., CFE
RCjr/mfd

Schedule 1

<u>Date</u>	<u>Payee</u>	<u>Address</u>	<u>Amount</u>	<u>Authorizing Department</u>
12/01/99	Copy Center	3321 Leopold Way, Suite 212, Fitchburg, Wisconsin 53713	\$ 392.00	Diagnostic Radiology
07/03/01	Copy Center	3321 Leopold Way, Suite 212, Fitchburg, Wisconsin 53713	\$ 812.00	Spine Center / Anesthesia Pain Center
09/11/01	Copy Center	1430 Starrgrass Drive, Madison, Wisconsin 53719	\$ 804.00	Spine Center / Anesthesia Pain Center
09/25/01	Copy Center	1430 Starrgrass Drive, Madison, Wisconsin 53719	\$ 816.00	Dialysis
01/02/02	Copy Center	1430 Starrgrass Drive, Madison, Wisconsin 53719	\$ 808.00	Spine Center / Anesthesia Pain Center
01/15/02	Copy Center	1430 Starrgrass Drive, Madison, Wisconsin 53719	\$ 812.00	Spine Center / Anesthesia Pain Center
02/19/02	Copy Center	1430 Starrgrass Drive, Madison, Wisconsin 53719	\$ 816.00	Spine Center / Anesthesia Pain Center
03/26/02	Copy Center	1430 Starrgrass Drive, Madison, Wisconsin 53719	\$ 812.00	Spine Center / Anesthesia Pain Center

Total Payments from UNC Hospitals

\$ 6,072.00

Schedule 2

<u>Date</u>	<u>Payee</u>	<u>Address</u>	<u>Amount</u>	<u>Authorizing Department</u>
08/15/00	Copy Center	3321 Leopold Way, Suite 212, Fitchburg, Wisconsin 53713	\$ 685.00	School of Medicine – Lineberger Comprehensive Cancer Center
10/25/01	Copy Center	1430 Starrgrass Drive, Madison, Wisconsin 53719	\$ 884.00	School of Medicine – Dean's Office
02/21/02	Copy Center	1430 Starrgrass Drive, Madison, Wisconsin 53719	\$ 848.00	School of Medicine – Vascular Surgery
03/21/02	Copy Center	1430 Starrgrass Drive, Madison, Wisconsin 53719	\$ 716.00	School of Education – Dean's Office
04/12/02	Copy Center	1430 Starrgrass Drive, Madison, Wisconsin 53719	\$ 880.00	School of Medicine – Physical Medicine and Rehabilitation
04/25/02	Copy Center	1430 Starrgrass Drive, Madison, Wisconsin 53719	\$ 712.00	School of Education – Dean's Office

Total Payments from UNC-Chapel Hill

\$ 4,725.00

COPY CENTER

1430 Starr Grass Dr Madison Wisconsin 53719 (608)829-1405
Fax No. (608)8291409

INVOICE

To: UNC
101 Manning Dr. 1st flr.
Chapel Hill N.C. 27514

Ship to: Same

Attn: XXXXXXXXXX

998792A	1/17/02	FOB	Net 30 Days
invoice no.	invoice date	ship via	Terms
9199664868	ea.		
Customer No.	Unit		

QTY	ITEM NO.	DESCRIPTION	Unit Price	TOTAL
4		Toner for 7950 Series	\$203.00	\$812.00
				Sales Tax
				SHIPPING AND HANDLING DNA
				TOTAL Invoice
				\$812.00

INVOICE

To:

Ship To:

Invoice no.	Invoice Date	Ship Via	Terms
	ea.		
Customer no.	Unit		

QTY	ITEM NO.	DESCRIPTION	Unit Price	TOTAL
				Sales Tax
				SHIPPING AND HANDLING
				TOTAL Invoice



THE UNIVERSITY OF NORTH CAROLINA AT CHAPEL HILL
Office of the Chancellor

James C. Moeser
Chancellor

103 South Building
Campus Box 9100
Chapel Hill, NC 27599-9100
(919) 962-1365 Fax (919) 962-1647
james_moeser@unc.edu

July 2, 2002

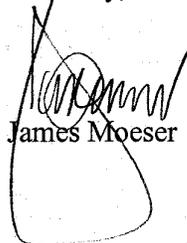
Mr. Ralph Campbell, Jr., CFE, State Auditor
2 S. Salisbury Street
20601 Mail Service Center
Raleigh, N.C. 27699-0601

Dear Mr. Campbell:

In response to reviews performed by our Internal Audit Department and your staff, the attached memorandum was recently sent to all departments of The University of North Carolina at Chapel Hill. We believe the memorandum adequately addresses the control issues raised by your first three recommendations. Regarding the last recommendation, the incident has been referred to the UNC Police for criminal investigation.

Should you have any question regarding the actions taken by our campus, please feel free to contact Ms. Nancy Suttentfield, Vice Chancellor for Finance and Administration, at 919-962-3795, Mr. Roger Patterson, Associate Vice Chancellor for Finance, at 919-962-7242, or Ms. Phyllis Petree, Director Internal Audit, at 919-962-7883.

Sincerely,



James Moeser



THE UNIVERSITY OF NORTH CAROLINA

AT
CHAPEL HILL

Internal Audit Department

CB #1050, Hill Commercial Building
Chapel Hill, NC 27599-1050
919-962-5524 (FAX) 919-962-2659

DATE: July 1, 2002
TO: Deans, Directors and Department Chairs
FROM: Roger D. Patterson *Roger D. Patterson*
Associate Vice Chancellor for Finance
Phyllis C. Petree *PCP*
Director of Internal Audit

SUBJECT: **ALERT! VENDOR FRAUD**

In recent weeks, the University has found cases of vendor fraud involving invoices for toner cartridges and advertising. Please be aware that these scams are out there and take steps to ensure that your department doesn't get caught by one.

Scams involving toner cartridges and other office supplies and advertising are fairly common. The toner and office supply scammers often use nondescript names that can easily be confused with the name of legitimate vendors. Advertising scammers often claim to have publications that target minorities and special interest groups.

Sometimes a toner scam starts with a phone call from someone who asks questions about model or serial numbers of copiers, fax machines, and printers in a department or the office supply vendors a department uses. The caller will often have information about a department – names and titles of employees, location of department offices, etc. – that is readily available from University directories and other public sources. Sometimes the scammers simply send an invoice for toner or other office supplies, often marked "past due." There may be follow-up phone calls pressing for payment. Only rarely are any goods delivered and those that are usually have not been ordered and are over-priced and of poor quality.

The advertising scams may start with a phone call offering to publish magazine ads for the University or asking if a department wants to renew its ads from prior years. More often, the scammers send an invoice for an ad that they claim to have run in their publication. As with the toner scam, the invoices are often marked as being past due and there may be follow-up phone calls demanding rapid payment. Unlike many invoices for legitimate ads, the scammers' invoices contain little information about the size or dimension of the ad (such as number of words, number of lines, or size in column inches) or when the ad was supposed to have run. Occasionally, the scammer will produce a copy of the ad or even an issue of the publication if a department asks for these items but cannot provide a document showing the department actually requested the ad.

There are some steps you can take to protect your department against vendor scams:

1. Know your vendor. A safe and easy way to protect your department is to buy from state contract vendors whenever possible. If you need to go off contract, stick to vendors or publications and other media resources with a known performance record.

When in doubt, call the Purchasing Division at 962-2251 to inquire about a vendor. Or use an Internet search engine to check out a vendor on-line. The website for the Better Business Bureau also provides a way to search for information about vendors, nationwide. The URL is: <http://www.bbb.org>. Follow the link to Check Out a Company.

2. Don't buy from telemarketers or give information about office equipment in your department to people you don't know. If you get a call from an unfamiliar vendor who is pressing to make a sale or asking questions about the office equipment in your department (manufacturers, model numbers, or serial numbers), get the caller's name and phone number and offer to return the call. Then take some time to determine if the caller was a legitimate vendor and, if so, to decide if you want to do business with them.
3. Keep track of what you've ordered. Keep a copy of orders you submit via mail or the original of orders you submit by fax. Make a screen print of orders placed on-line. Or simply keep a list of orders your department has placed.
4. Before paying an invoice, make sure that your department ordered and has received the goods or services shown on the invoice. Watch out for vendors using names that sound like the name of well-known vendor.

If your department receives a call or invoice that you think may be related to a scam, notify the Purchasing Department at 962-3774. If the invoice has already been paid, also contact Internal Audit at 962-5524.



Eric B. Munson, President and Chief Executive Officer

July 8, 2002

Mr. Ralph Campbell, Jr., CFE
State Auditor
State of North Carolina
Office of the State Auditor
2 S. Salisbury Street
20601 Mall Service Center
Raleigh, N.C. 27699-0601

Dear Mr. Campbell:

This is in response to your preliminary draft management letter of June 24, 2002 (Attachment A) related to disbursements totaling \$6,072 paid by UNC Hospitals to a fraudulent vendor known under the name "Copy Center."

While we concur with the recommendations outlined on pages 3 and 4 of your letter, it is important to note that UNC Hospitals has always recognized the need for, and has, in fact, since the early eighties, utilized a purchasing and inventory system where the independent elements of matching purchase order, receiving, and invoice are required to generate payment. Even before UNC Hospitals converted to Lawson in 1998, its predecessor in-house system developed and supported by the Hospitals' Information Systems Department worked on the same principle. Realizing however that there will always be exceptions occasioned by urgent needs in an academic medical center the size of UNC Hospitals, Management has taken the prudent approach of allowing departments, under the appropriate circumstances, to procure without a purchase order specifically identified items required to deliver uncompromised patient care. For such exceptions, clear procedures are provided to insure that controls remain in place as evidenced in Attachment B (dated July 1, 1999) and Attachment C (dated April 18, 2002), both issued before the case of "Copy Center" was discovered.

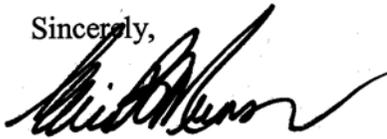
UNC Hospitals' reaction to the "Copy Center" fraud was swift. Mr. Chuck Mauro, Director of Materials Management issued a hospital-wide memorandum via e-mail (Attachment D) on May 31, 2002 at 8:23 AM to inform, caution and provide guidance to departments, and to stop and prevent future occurrences. An internal audit of the case was simultaneously started and completed not long after. Ms. Martha Behnke, Internal Auditor performed the audit. Her findings and conclusions coincide for the most part with those of the Office of the State Auditor and are herewith included as Attachment E.

The recommendations outlined in Ms. Behnke's report were developed with the assistance and participation of representatives from UNC Hospital's Purchasing and Accounts Payable Departments who have been charged with the responsibility of assessing applicability and practical implementation.

Finally, UNC Hospitals is evaluating the merits of undertaking legal action against "Copy Center."

Thank you for the opportunity to review and respond to your letter.

Sincerely,

A handwritten signature in black ink, appearing to read "Eric B. Munson", written in a cursive style.

Eric B. Munson

Attachments

The response from UNC Hospitals included a complete copy of the management letter of June 24, 2002 as Attachment A.

MEMORANDUM

To: Directors, Department Heads and Supervisors

From: Robert Smith, Assistant Controller

Date: 7/1/1999

Re: Check Requests and Contract Payments

There has been some confusion about when to use the Check Request and Contract Payment forms instead of a Purchase Order.

General rule regarding the issuance of a Purchase Order:

Purchase Orders should be issued for all acquisitions of tangible goods except as noted below in Check Requests.

Check Requests should only be used for the following:

1. Dues, Fees, Books and Subscriptions (Account 749100)
2. Transportation expense ie; Federal Express, Airborne Express, UPS, etc. (Account 736100)
3. Reimbursement of expenses paid by employees
4. Trust Fund expenditures
5. Utilities
6. Transplantation Fees

Contract Payments:

Contract Payment forms should be used to pay for contracts which extend over a period of time, usually at least a year and require multiple payments. These include equipment and software maintenance agreements, service contracts and rental/lease payments. In order to use the Contract Payment forms the contract must be established in Lawson as a Standard Order. This is accomplished by submitting a requisition to Purchasing for a contract. After assignment of a Standard Order number, Contract Payment forms may be submitted for payment. Recurring payments may be created for those contracts that have a set amount each month or quarter, negating the need for monthly paperwork.

Other Issues

Additionally, at times inappropriate accounts are used by departments in coding check requests. The accounting department has the responsibility to ensure the proper coding. The account coding will be changed, if necessary, and the department notified. If the expense is budgeted in the incorrect expense category, the department will need to complete a budget transfer to correct this problem.

As a reminder, please ensure that original invoices are sent to Accounts Payable.

Effective immediately, improperly used Check Requests or Contract Payment Requests forms will be returned to Departments.

Should you have any questions, please let me know.



MEMORANDUM

To: Directors, Department Heads and Supervisors

From: John Storment, Assistant Controller
Jeff Yardley, Purchasing Manager

Date: April 18, 2002

Re: Incorrect Use of Check Requests

The number of check requests processed by Accounts Payable has increased significantly and it has been determined that the majority of this increase can be attributed to check requests that have been used incorrectly.

As a reminder, **Purchase Orders** should be issued for all acquisitions of tangible goods except as noted below.

Check Requests should *only* be used for the following:

- Dues, Fees, Books and Subscriptions (Account #749100).
- Transportation expense i.e. Federal Express, Airborne Express, UPS etc. (Account #736100).
- Reimbursement of expenses paid by employees.
- Trust Fund expenditures.
- Utilities.
- Transplantation Fees.

Effective May 1, all improperly used check requests will be forwarded to Purchasing and routed to the appropriate purchasing agent. The nature of the purchase will be reviewed and a Purchase Order generated, after the fact, in order to capture this information in the Lawson system more effectively. Once the Purchase Order has been created, Accounts Payable will then match and pay the invoice per our standard process.

Please initiate your department's purchases according to the established policies and procedures, as noncompliance will cause delays in payment processing.

Thank you for your cooperation.

Attachment D

From: Mauro, Chuck
Sent: Friday, May 31, 2002 8:23 AM
To: Information
Subject: Fraudulent Offices Supply Invoices

Importance: High
Please broadcast to all e-mail groups.

Several departments in both the Hospitals and the University have recently been victimized by a series of fraudulent office supply invoices. This is a common scam in which a make-believe office supply company sends out invoices for office supply products, usually copier or printer toner, that have never been ordered or shipped. If payment is not forthcoming, it's also not unusual for them to contact a staff member in the targeted department and threaten them with turning the invoice over to a collection agency. Unsure of whether they ever received the products, many departments simply have a check request processed to cover the invoice.

To deter this type of fraudulent activity, please do not attempt to resolve or process any invoices sent directly to user departments. All invoices should be directed to the Accounts Payable Department. Additionally, never approve payment for any product or service that you can not confirm. And lastly, do not purchase commodity items such as office supply from an unknown or unapproved vendor. Part of the scam is that, when products are actually shipped, they are priced many times what the product would normally cost.

This is the name and the addresses used for the recently uncovered scam:

Vendor name: Copy Center
Addresses: 1430 Starr Grass Drive, Madison, Wisconsin 53719
3321 Leopold Way Suite 212, Fitchburg, Wisconsin 53713

Please contact the Purchasing Department immediately if you have been invoiced or contacted in this manner.

thanks.

Chuck Mauro
Materials Management
966.3828



MEMORANDUM

TO: Charles Ayscue, Senior Vice President and Chief Financial Officer
Glenn Campbell, Senior Vice President Professional and Support Services
Pattie Moore-Boyette, Vice President of Audit and Reimbursement

FROM: Martha Behnke, Internal Auditor *M. Behnke*

DATE: June 21, 2002

SUBJECT: Fraudulent Invoices, "Copy Center"

In late May 2002, Phyllis Petree, Director of Internal Audit at UNC Chapel Hill, called to inform UNC Hospital Audit Services that the University had discovered fraudulent billing from a supposed office supply vendor. In conjunction with Fiscal Services, Audit Services began researching whether the Hospitals also had been taken in by the fraudulent vendor. We found that indeed, UNC Hospitals had paid out \$6,072 to a vendor: "Copy Center," based in Wisconsin. Soon after the Hospitals' research began, we learned that the State Auditors had received a call from the Carolina Copy Center that a similarly named vendor was fraudulently billing under a name close to its own. The State Auditors began an investigation right away.

Most clever scams rely on the weaknesses of natural human reaction and internal control systems. One of the department heads that requested payment for some of the fraudulent invoice explains how she was deceived. This manager explained that Carolina Copy Center leases a copier to her department. She assumed that "Copy Center" was the Carolina Copy Center and further assumed the receipt of the goods, specifically copy toner, was done by the Carolina Copy Center. Additionally, she received calls from the "Copy Center" urging payment on the invoices under the threat that the Hospitals would be sent to collection. Motivated by her wish to remain on good terms with a provider of services, she prepared check requests.

FINDINGS

- UNC Hospitals had processed and paid 7 invoices totaling \$6,072 to the fraudulent vendor. From what we understand the University had paid approximately \$4,700.
- An eighth "Copy Center" invoice was being held up because it had been re-directed back to the department to prepare a purchase order in accordance with a Fiscal Services/Purchasing memo issued in April 2002. This memo had re-emphasized the appropriate use of check requests. A ninth invoice was held after the fraud came to light.
- Each payment that was made to the "Copy Center" was paid outside of normal purchasing procedures, by check request. The check request process surpasses the usual procedures for purchase orders and receiving/requisitioning. For a check request, the authorized manager is relied on to verify receipt.

- UNC Hospitals policies concerning check requests and purchase orders were not being followed. Invoices for goods should have purchase orders, not check requests, so that the receipt of goods, as well as the order of goods can be verified. A Fiscal Services memorandum issued to all Directors, Department Heads and Supervisors in July 1999 stated that:

Purchase Orders should be issued for all acquisitions of tangible goods except as noted below in Check Requests.

Check Requests should only be used for the following:

1. *Dues, Fees, Books and Subscriptions*
2. *Transportation expense i.e.; Federal Express, airborne Express, UPS, etc.*
3. *Reimbursement of expenses paid by employees*
4. *Trust Fund expenditures*
5. *Utilities*
6. *Transplantation Fees*

- From our understanding, the check request policy was relaxed as a result of the Lawson accounts payable and purchasing system conversion. The purchase order policy was initially relaxed as a practical measure to relieve the backlog that was occurring in the Purchasing Department during the conversion. Additionally, since not all departments are "on-line" with Lawson, many departments are relying on the check request system. Some of the UNC Hospitals departments feel burdened by the purchase order system and have pressured Fiscal Services for a more flexible system.
- In early April 2002 Fiscal Services and Purchasing re-emphasized the policy in a memo addressed again to Directors, Department Heads and Supervisors. This memorandum re-iterated appropriate use for check requests as outlined previously and additionally gave notice as follows:

Effective May 1, all improperly used check requests will be forwarded to Purchasing and routed to the appropriate purchasing agent.

- By adhering to this newly re-iterated notice, one of the check requests for the fraudulent vendor invoices was re-directed through the standard purchasing process. In fact, the Purchasing Manager noted that the vendor was a source outside of the approved contracted source for toner and other copy supplies. He had intended to address this with the parties involved when he was notified of the fraud and the processing was canceled.

RECOMMENDATIONS

- A workgroup involving Fiscal Services, Purchasing and Audit Services has convened to address internal control weaknesses highlighted by this incident.
- The workgroup will initiate memorandum from senior level management re-enforcing the adherence to UNC Hospitals purchasing and payment policies. Some of the policies to be re-iterated concern the correct and appropriate use of check requests, that vendor calls to the departments be forwarded to Purchasing or to the Accounts Payable Departments, and that all invoices should be original invoices; faxed or copied invoices would not be accepted, etc.
- Fiscal Services and Purchasing have already initiated educational materials intended to assist UNC Hospitals departments to better understand some of the policies and procedures involving purchases, requests for payment, approved vendors, accounts payable, and the assistance that can be provided by the Purchasing and Accounts Payable Departments.

(Reference is memorandum dated June 17, 2002 to Directors, Department Heads and Supervisors on Yearend Invoice Processing with Q&A attachment.)

- Some other ideas being explored for improving internal controls include
 - A system of approved vendors for UNC Hospitals
 - An improved receipt function
 - Possible authentication of vendors through contracted services such as Dunn and Bradstreet
 - Periodic computer monitoring of vendors by the Audit Services Department

Cc: Eric Munson, President and CEO
Todd Peterson, Executive Vice President and COO
Ron Miller, Director of Internal Audit
Irma Tejada, Controller
Chuck Mauro, Director Materials Management
↓ John Storment, Assistant Controller
Jeff Yardley, Purchasing Manager
Tom Smith, Director Hospital Police