

Office of the State Inspector General

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Financial Analysis and Investigative Support to Lander University

[Update – Final Adjudication: On 9/8/2016, subject pled guilty in General Sessions Court – Greenwood County (Case #2015A2420100431), to one count of embezzlement of public funds of more than \$10,000 and was sentenced to ten years, provided upon the service of one year of house arrest the balance is suspended, with five years of probation, \$328,715.00 in restitution, and 75 hours of community service after house arrest. See link for additional information: <http://www.indexjournal.com/news/Former-Lander-employee-pleads-guilty-to-embezzlement-18100529> and <http://www.indexjournal.com/opinion/editorial/Lander-embezzlement-one-for-the-classroom-18111114>]

<u>Table of Contents</u>	<u>Page</u>
I. Administrative.....	3
II. Investigative Predicate.....	3
III. State Criminal Statute.....	4
IV. SIG Investigators' Backgrounds.....	4
V. SIG Summary Analysis.....	4
A. Review of Chareen Stevenson's Confession.....	5
B. Lander University Payroll Process.....	5
C. Fraud Scheme Format.....	6
D. Fraud Loss Calculation Analysis.....	7
E. SIG Summary Conclusion.....	10

I. Administrative

The State Inspector General (SIG) is not an adjudicative or recommending authority. The SIG prepares an investigative summary reporting the facts based on the collection of evidence primarily through interview and record review. As part of its mandate, the SIG provides investigative and financial analysis support to state-wide agencies pertaining to fraud allegations. The SIG provides its investigative summary to the appropriate authority, which in this case is the Vice President (VP) for Business and Administration, Lander University (LU) and the Chief of Police, LU, to pursue potential administrative, civil, or criminal remedies.

The SIG considers this investigative analysis to be LAW ENFORCEMENT SENSITIVE and the property of LU. As such, all Freedom of Information Act (FOIA) inquiries received by the SIG will be forwarded to LU. The agency will have all of the SIG's records collected during the course of its investigative analysis, and will be in a position to determine when documents are releasable under FOIA.

The SIG's points of contact during this investigation were VP Gary McCombs, LU, and Eddie Briggs, Chief of Police, LU. The SIG extends its appreciation for the cooperation and support provided by the LU staff during the SIG's participation in this matter.

II. Investigative Predicate

The LU police initiated its investigation (case# LU2015-283) on 04/13/2015, following notification from VP McCombs based on an audit of overtime expenditures. This audit determined the former LU Business Office supervisor, Chareen F. Stevenson, utilized her supervisory authority to access LU's financial management system (FMS) known as "Banner," and its predecessor system (AS-400), to alter the payroll/direct deposit electronic file, which increased her salary prior to its submission to Wells Fargo Bank for payroll disbursement.

It was initially determined that Stevenson embezzled more than \$30,000 during the preceding twelve months. On 4/14/2015, Stevenson was interviewed at her residence by LU Police Chief Eddie Briggs, which resulted in Stevenson's confession to the embezzlement of payroll funds for approximately 15 years. Stevenson was terminated from LU employment for misuse of funds by VP McCombs and LU Human Resource Director Jeannie McCallum prior to her interview with Chief Briggs. On 5/26/2015, Chief Briggs requested the SIG's assistance in providing investigative and financial analysis as part of this pending criminal investigation. On 5/27/2015, Stevenson was charged with one count of "Embezzlement of public funds, value \$10,000 or more," and was arraigned in General Sessions Court, Eighth Judicial Circuit. Based upon this request, the SIG initiated its investigation to provide the requested assistance to LU police and the Eighth Circuit Solicitor's Office in order to determine the full extent of the fraud losses.

III. State Criminal Statute

The investigation and financial analysis conducted in this matter identified the primary state criminal statute violated is found in the 1976 S.C. Code of Laws, as amended, Section 16-13-210 “Embezzlement of Public Funds.”

IV. SIG Investigator Backgrounds

Brian D. Lamkin, SIG investigator, served as a Special Agent with the Federal Bureau of Investigation (FBI) for more than 25 years, to include two Special Agent in Charge assignments in Columbia, South Carolina and Atlanta, Georgia. During his FBI tenure, Lamkin was assigned to investigate complex white collar crime (WCC) and financial crimes matters; among which included his assignments to the Dallas Bank Fraud Task Force, which focused on the nation’s savings and loan failure crisis; and to the Dallas Asset Forfeiture/Money Laundering team. Lamkin has held various WCC supervisory positions within the FBI, to include the senior executive position of Chief of the FBI’s Financial Crimes Program. Lamkin is a Certified Fraud Examiner, as recognized by the Association of Certified Fraud Examiners; and has written articles on financial fraud schemes for the American Bankers Association and Butterworths Journal of International Banking and Financial Law.

Teesha Trapp, SIG auditor, has seven years of experience in conducting operational and governance audits of state agencies as an auditor with the state of South Carolina. Among her numerous assignments, Trapp has investigated allegations of fraud, waste and abuse in government agencies and performed in-depth reviews of agency procedures in order to recommend improvements and address internal control weaknesses. Trapp is a Certified Fraud Examiner, as recognized by the Association of Certified Fraud Examiners.

V. SIG Summary Analysis

The SIG investigative and financial analysis encompassed: (1) a review of the video-taped interview/confession of Stevenson by LU Police Chief Briggs on 04/14/2015; (2) interviews of pertinent LU staff; (3) a review and analysis of LU payroll, business office, and LU Police investigative file records; and (4) a review and analysis of bank account records from the Greenwood Municipal Federal Credit Union (GMFCU), Wells Fargo Bank, N.A. (WFB), and the former Wachovia Bank, held under the custody and control of WFB.

A. Review of Chareen Stevenson's Interview

On 04/14/2015, Stevenson was interviewed by LU Police Chief Briggs at which time she confessed to the embezzlement of the payroll funds. Stevenson stated that she "got behind on bills, couldn't see a way out, and took a little bit each pay period." Stevenson detailed her actions by stating she would alter the payroll register information prepared by her subordinate, Melanie Harrison, in a temporary Automated Clearing House (ACH) text file. Stevenson increased her payroll amount by using overtime funds out of LU's "house-keeping," police department, and temporary and hourly wage employee accounts. Stevenson remarked, "I never told anybody." Stevenson estimated she conducted this scheme for about 15 years, and diverted approximately \$1,500 each pay period. When asked if she paid taxes on the extra money she stated, "No." Stevenson explained the W-2s reflected the payroll information compiled by Harrison prior to its transmittal to WFB. Since Stevenson changed the direct deposit information after the payroll register data was prepared, the W-2s did not capture the fraudulent payroll distributed through the direct deposit process.

To corroborate key portions of Stevenson's confession, the SIG conducted a review of all available bank account records produced for Stevenson's GMFCU and WFB accounts. The SIG determined that both Stevenson and her spouse split their individual payroll deposits between their joint GMFCU accounts, and two WFB joint accounts. In August 2000, the first identifiable LU payroll deposit occurred in the Stevenson joint GMFCU savings account in the amount of \$25.00. While direct deposit amounts varied over the length of time these accounts were utilized, the use of joint checking accounts at both banking institutions was constant. The primary checking accounts used to receive the joint payroll deposits, to include the fraudulent payroll, were: (1) GMFCU; and (2) WFB.

B. Lander University Payroll Process

Lander University's payroll compilation and disbursement process is a 20-step process which utilizes the Banner FMS to capture time and attendance information to construct the payroll register. Once constructed the payroll register is converted into an electronic ACH/direct deposit file which is sent to WFB for disbursement to LU employees' bank accounts.

A review of Stevenson's LU personnel file established she was hired on 9/30/1985, as an Accounting Tech I at the beginning salary of \$15,150. By 1996, Stevenson had successfully progressed and attained the position of Accountant/Fiscal Analyst I at a salary of \$26,908. In 2002, Stevenson's position was reclassified to Accountant/Fiscal Analyst II at the salary of \$37,108. One aspect of Stevenson's job description and duties was the compilation and management of LU's payroll process.

In April 2005, Stevenson was promoted into her most recent position as Accountant/Fiscal Analyst III at a salary of \$47,114. Over the remaining ten years of her LU employment, Stevenson received periodic salary increases up through her ending salary of \$59,563. For the period encompassing the fraudulent

payroll deposits (11/29/2004 – 4/15/2015), Stevenson’s salary ranged from \$40,208 to \$59,563, including two assignments as “interim budget director” whereby she received an additional stipend of \$6,200 in 2010, and \$7,612 in 2013.

In 2005, following Stevenson’s promotion, Melanie Harrison was hired as the new payroll accountant and reported directly to Stevenson. Harrison, who was trained on the use of the Banner FMS prior to her arrival at LU, was an experienced payroll manager at Piedmont Technical College and in private industry. However, at the onset of her LU employment, Harrison was instructed by Stevenson to only complete steps one through nine of the 20-step payroll process, which stopped short of creating the ACH direct deposit file and transmittal to WFB. Stevenson had informed Harrison that she (Stevenson) would complete steps ten through twenty of the payroll process.

C. Fraud Scheme Format

The embezzlement scheme was initially discovered as part of the overtime audit conducted by James T. Covar, LU Controller and Budget Director, after he reviewed the Accounts Payable (A/P) backup documentation to the 3/31/2015 payroll. A comparison of the payroll register given to A/P by Stevenson was \$1,500 more than the actual transmittal register prepared by Harrison. This discovery prompted Covar to review a temporary accounting file known as the Gurfeed table, which is used to reconcile all LU department budgets and liability accounts maintained in the archived AS-400 FMS and the Banner FMS. Covar determined Stevenson had altered custodian, police, hourly wage, and temporary employee accounts in the Gurfeed table to offset the fraudulent increase of \$1,500 in the payroll file for her salary in that specific pay period.

Based upon Stevenson’s confession to Chief Briggs, and SIG interviews of Harrison and Covar, the investigation determined Stevenson conducted a multi-step fraud scheme by altering the payroll register data prepared by Harrison in a temporary ACH text file prior to its transmittal to WFB. The steps of the fraud scheme are further described as follows:

1. At the conclusion of Step #9 of the payroll process, Harrison notified Stevenson that the payroll register data was complete and ready for Stevenson to construct the ACH text file and transmit it to WFB.
2. Stevenson initiated Step #10 and created a temporary ACH text file utilizing the payroll register data. During this process, Stevenson altered the ACH text file and increased her salary, along with the file’s corresponding summary totals.
3. Stevenson accomplished this by increasing the overtime payments from four budget accounts belonging to the LU Public Safety and Custodial Services departments, along with the associated temporary and hourly wage employee accounts for these departments in order to correspond to the amounts by which she had increased her salary.

4. To ensure the LU accounting files properly reconciled, Stevenson accessed and altered the same four budget accounts maintained in the temporary accounting file (“Gurfeed”). Only three individuals had access to the Gurfeed table in the archived AS-400 FMS: (1) Stevenson; (2) Covar, who was Stevenson’s supervisor; and (3) Harrison.
5. Stevenson electronically transmitted the ACH text file to WFB for payroll distribution.
6. Stevenson received email confirmation from WFB of the successful transmission and receipt of the ACH text file.
7. Stevenson submitted the ACH text file to the A/P office as verification for A/P to issue a check to cover the payroll for each pay period.
8. Stevenson directed Harrison to deposit the A/P payroll check into the university’s payroll account at Bank of America.
9. Stevenson avoided disclosure of the additional income on her year-end W-2 tax form because the year-end tax information is based upon the payroll register information completed by Harrison, not the final altered ACH text file transmitted to WFB.

D. Fraud Loss Calculation Analysis

The SIG’s fraud loss calculation analysis involved the identification of direct and circumstantial evidence of fraudulent deposits attributable to the embezzlement scheme. While the GMFCU bank statements were the most complete for the period under review, no university or bank account record was 100% complete. Four principal issues impacted the analysis of these records: (1) WFB’s seven-year record retention policy; (2) intermittent bank statements and/or lack of detail at GMFCU prior to 2002; (3) LU’s conversion to the Banner FMS in 2005 limited production of detailed payroll data to its inception date of 1/1/2005 and beyond; and (4) no detailed payroll deduction information was retrievable from the archived AS-400 FMS. Given these facts, the SIG’s analysis identified the earliest record of a fraudulent payroll deposit was made to Stevenson’s GMFCU bank account on 11/29/2004.

Based upon Stevenson’s statements to LU police that she conducted this scheme over 15 years, it was determined the scope of the fraud loss calculation analysis should encompass as broad of a range as possible of university records and Stevenson’s personal bank statements. Stevenson’s bank accounts were identified through a review of available LU direct deposit and payroll records maintained under Stevenson’s employee identification number. As a result, the SIG focused its analysis of bank account records on the 250 pay periods (PP) encompassing the period of the first identified fraudulent deposit (11/29/2004) through Stevenson’s employment termination (4/15/2015).

Direct Evidence of Fraud Losses

The initial phase of the fraud loss calculation analysis focused on the identification of direct evidence of fraudulent deposits made to Stevenson’s primary checking accounts at GMFCU and WFB. Beginning with PP22 (11/29/2004) and continuing through PP24 (12/22/2004), Stevenson separately received \$985

in LU payroll funds in the GMFCU account. This constituted an extra \$300 in fraudulent payroll deposits for each pay period based upon payroll records that only \$685 should have been deposited into the GMFCU account each pay period.

For the first five pay periods of the 2005 LU payroll calendar, the SIG confirmed the correct amount of \$685 was deposited into Stevenson's GMFCU account. For the remaining 242 pay periods of PP6 (2005) through PP7 (2015), the SIG confirmed that Stevenson regularly received an extra \$300 in fraudulent deposits in 235 pay periods, and that the correct amount of payroll was deposited in seven additional pay periods. As a result, direct evidence established that fraudulent payroll funds were individually deposited into Stevenson's GMFCU account in 238 of the 250 pay periods (95%), which resulted in fraud losses of **\$71,400**.

For the WFB checking account, direct evidence of fraudulent payroll deposits could not be identified for the 87 pay periods of PP22 (2004) through PP12 (2008). This was due to WFB's seven-year record retention policy which limited retrieval of bank records to July 2008 and later. However, beginning with PP13 (2008) through PP7 (2015), the SIG confirmed that Stevenson regularly received an extra \$1,200 in fraudulent payroll funds in 156 pay periods, \$1,210 in PP17 (2011), \$900 in PP1 (2009); and that the correct amount of payroll was deposited in five additional pay periods. As a result, for the period of 7/14/2008 – 4/15/2015, direct evidence established that fraudulent payroll funds were individually deposited into Stevenson's WFB checking account in 158 of the 163 pay periods (97%), which resulted in fraud losses of **\$189,310**.

The SIG analysis of direct evidence identified a combined **\$260,710** in fraudulent payroll, comprised of 396 separate deposits in Stevenson's GMFCU and WFB accounts as summarized in Table A below:

Table A: Direct Evidence of Fraud Losses

Stevenson's Bank Account	Direct Deposits Received (actual or range)	LU Payroll, A/P & Bank Records (actual or range)	Fraud (each PP)	250 Pay Periods	Fraud Losses	Time Period
GMFCU	\$985	\$685	\$300	29	\$8,700	PP22 ('04) – PP9 ('06)
	\$1,000	\$700	\$300	209	\$62,700	PP10 ('06) – PP7 ('15)
	\$685 - 700	\$685 - 700	\$0	12	\$0	PP1 ('05) – PP21 ('14)
					<u>\$71,400</u>	<i>GMFCU Subtotal</i>
WFB	Payroll + \$1200	\$475.20 - 764.42	\$1,200	156	\$187,200	PP13 ('08) – PP7 ('15)
	\$1,498.32	\$598.32	\$900	1	\$900	PP1 ('09)
	\$1,722.02	\$512.02	\$1,210	1	\$1,210	PP17 ('11)
	\$506.05 - 578.70	\$506.05 - 578.70	\$0	5	\$0	PP20 ('11) – PP7 ('15)
			Unresolved	87	Unresolved	PP22 ('04) – PP12 ('08)
					<u>\$189,310</u>	<i>WFB Subtotal</i>
	Fraud	Loss	Subtotal	=	\$260,710	

Circumstantial Evidence of Fraud Losses

The second phase of the fraud loss calculation analyzed the aforementioned 87 pay periods from PP22 in 2004 through PP12 in 2008 which lacked WFB bank records to verify fraudulent proceeds directly benefitting Stevenson. Despite not having direct evidence of fraudulent proceeds directly benefitting Stevenson, the review developed sufficient circumstantial evidence LU was defrauded in 65 of these pay periods using a combination of the following documents: (1) A/P payroll backup documentation and vendor check registry; (2) WFB ACH reports and confirmation emails; (3) LU corporate bank statements and payroll registers; (4) W-2 Wage Statements and “end of year” (EOY) paycheck summaries for 2005-2014; and (5) pay rate and salary history maintained in Stevenson’s personnel file.

A combination of these five documents for each transaction demonstrated the amount sent to LU’s WFB payroll distribution account exceeded the payroll register in a manner identical to Stevenson’s fraud scheme using the same fraud amount of \$1200 the vast majority (95%) of the time. Further, during these 65 pay periods, LU fraud losses of \$300 were traced to Stevenson’s GMFCU account where bank records were available to verify the direct benefit to Stevenson, which direct evidence patterns showed always occurred with fraudulent funds deposited to Stevenson’s WFB account during the same pay period. These 65 pay period frauds circumstantially connected to Stevenson totaled \$76,700 as illustrated in the below Table B.

Seven of these 87 pay periods were determined to have received the correct payroll deposits, thereby leaving 15 unresolved pay periods. There was a lack of available documentation to demonstrate LU suffered a fraud loss during these 15 unresolved pay periods.

Table B: Circumstantial Evidence of Fraud Losses

Stevenson’s Bank Account	Direct Deposits Received (actual or range)	LU Payroll, A/P & Bank Records (actual or range)	Fraud (each PP)	87 Pay Periods	Fraud Losses	Time Period
WFB		\$270.79 - 607.60	\$1,200	62	\$74,400	PP16 (‘05) – PP12 (‘08)
		\$507.07	\$1,000	2	\$2,000	PP6 & PP15 (‘05)
		\$569.89	\$300	1	\$300	PP10 (‘08)
			\$0	7	\$0	PP1 – PP22 (‘05)
			Unresolved	15	Unresolved	PP22(‘04) – PP23 (‘07)
	Fraud	Loss	Subtotal	=	\$76,700	

Suspected Fraudulent Payroll Deposits

The fraud loss calculation analysis identified direct and circumstantial evidence which accounted for a combined 473 out of 500 (95%) fraudulent payroll deposits in Stevenson’s GMFCU and WFB accounts for the period of 11/29/2004 – 4/15/2015. This two-phase analysis established a pattern of fraudulent behavior which resulted in **\$337,410** in fraud losses to the university.

E. SIG Summary Conclusion

For the period of 2005 – 2015, a summary analysis of Stevenson’s payroll registers, salary history, and year-end pay statements were determined to be in agreement with her Internal Revenue Service (IRS) W-2 Wage and Tax Statements. However, this data did not account for the fraudulent payroll deposits Stevenson’s received. When this information is factored into the analysis, Stevenson under reported her taxable wages by \$336,510 to the IRS and the South Carolina Department of Revenue. Through this analysis the fraudulent payroll deposits: (a) provided 100% recovery of her total payroll deductions; (b) provided 100% recovery of her total payroll tax withholdings; and (c) the total fraudulent deposits exceeded 100% of her total net take home pay. This comparative analysis is summarized in Table C below:

Table C: Comparison of Reported Wages and Fraudulent Payroll Deposits (2005-2015)

End of Year Statements	Applicable Gross Wages (A)	Pre-Tax Deductions (B)	Payroll Tax Deductions (C)	After-Tax Deductions (D)	Total Deductions (E)	Net Take Home Pay (F)	Fraudulent Payroll (G)	Effective Gross Wages (A+G)
EOY 2005	\$46,041.67	\$7,117.03	\$8,753.40	\$1,817.55	\$17,687.98	\$28,353.69	\$16,700.00	\$62,741.67
EOY 2006	\$51,779.36	\$8,486.48	\$10,042.97	\$3,313.40	\$21,842.85	\$29,936.51	\$32,400.00	\$84,179.36
EOY 2007	\$54,363.00	\$8,319.47	\$10,802.74	\$4,231.88	\$23,354.09	\$31,008.91	\$33,600.00	\$87,963.00
EOY 2008	\$55,441.44	\$8,557.56	\$11,051.62	\$4,648.19	\$24,257.37	\$31,184.07	\$35,100.00	\$90,541.44
EOY 2009	\$54,645.23	\$8,513.75	\$10,366.69	\$4,428.24	\$23,308.68	\$31,336.55	\$35,700.00	\$90,345.23
EOY 2010	\$58,558.70	\$8,952.18	\$11,797.72	\$6,242.24	\$26,922.14	\$31,566.56	\$36,000.00	\$94,558.70
EOY 2011	\$56,966.96	\$8,664.60	\$12,699.22	\$4,860.24	\$26,224.06	\$30,742.90	\$34,510.00	\$91,476.96
EOY 2012	\$56,552.54	\$8,974.49	\$13,059.14	\$4,860.06	\$26,893.69	\$29,658.85	\$33,000.00	\$89,552.54
EOY 2013	\$60,876.95	\$10,090.11	\$15,326.49	\$6,205.92	\$31,622.52	\$29,254.43	\$36,000.00	\$96,876.95
EOY 2014	\$58,254.00	\$9,118.95	\$14,588.99	\$4,843.52	\$28,551.46	\$29,702.54	\$33,000.00	\$91,254.00
EOY 2015	\$27,820.75	\$3,476.53	\$5,151.57	\$1,411.97	\$10,040.07	\$17,780.68	\$10,500.00	\$38,320.75
Cumulative Totals *	\$581,300.60	\$90,271.15	\$123,640.55	\$46,863.21	\$260,704.91	\$320,525.69	\$336,510.00	\$917,810.60

*Totals only include Banner FMS data for 2005 – 2015; and exclude AS-400 FMS fraud data for 2004 (\$900)

Based on the totality of evidence and documentation, the SIG’s analysis confirmed that Stevenson engaged in a fraudulent payroll scheme over a 10 ½ year period (11/2004 – 4/2015), which resulted in the embezzlement of **\$337,410** from the LU payroll accounts for which she derived a personal benefit. While Stevenson confessed to the embezzlement scheme, and voluntarily surrendered her annual leave payout (\$8,695.62) as an initial payment toward restitution, the extent of the fraud and the impact on university operations, budget, and reputation is still being measured.