

Just Another Day in the Life: Embezzlement and Procurement Fraud

Written by Nick Sanders
Monday, 18 April 2011 09:49



Ho, hum. One story of embezzlement and another story of procurement fraud. Just another day in the life of a government contractor....

But wait!

These two stories are not about government contractors!

As we've said many times on this site, not all stories of waste, fraud, and abuse take place in the government contracting arena. We believe that as much wrongful behavior takes place within the government and/or military—or within the commercial marketplace—as takes place in the Federal contracting domain. It's just that government contractor waste, fraud, and abuse makes such a delectable sound bite for certain politicians.

Today we bring you two stories to support our assertion.

First, we [link](#) to a recent story at GovExec.com about Sheila Ann Howard, age 54, of Capitol Heights, Maryland. According to the story, Ms. Howard was charged with embezzling \$149,459 from the Federal Emergency Management Agency (FEMA) over a 15-month period.

Ms. Howard has been employed by FEMA since 1990. Her current title is Human Resources

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Specialist, a position she has held since 2008. As part of her duties, Ms. Howard “manually inputs payments into FEMA’s Special Payroll Processing System (SPPS). SPPS ... allows the establishment, adjustment, inquiry, retrieval, and deletion of certain manual payment transactions.” Here’s the [criminal affidavit](#) from which we draw the foregoing quote and other facts we are reporting herein. (Tip of the hat to GovExec.com for providing it.)

According to the complaint, FEMA’s SPPS transactions include “cash awards and special bonuses, compensatory time payments, and restored annual leave payments that cannot be processed through the National Finance Center (NFC) payroll system.” Ms. Howard allegedly used her SPPS access to process fraudulent payments that were subsequently deposited into bank accounts to which she had access.

The GovExec.com story reported that Ms. Howard, “allegedly submitted these fraudulent payments in the names of 16 former FEMA employees and one current agency employee. Law enforcement contacted seven of the former employees who, according to the complaint, said they did not receive any of the funds or recognize the accounts into which Howard allegedly deposited the money.”

Did FEMA’s internal controls catch Ms. Howard? Was there proper segregation of duties or supervisory reviews of the “manual payment transactions”? Did the banks report a pattern of suspicious activity to the proper authorities? Apparently not.

Ms. Howard’s alleged wrongdoing came to light because a former FEMA employee received a 2010 W-2 indicating wage amount(s) that didn’t seem right. According to GovExec.com –

One of the former employees, who court documents identify by the initials R.P., sent an email to FEMA about a mysterious 2010 W-2 that she received from the agency for wages totaling \$9,598.50. According to the payroll system, the money was to compensate R.P. for unused annual leave when she retired in 2009. But R.P. already had been compensated for her unused leave at the time of her retirement.

R.P reported it and a review of all of Ms. Howard’s manual SPSS transactions revealed the pattern of alleged embezzlement. To make matters even worse, one of the bank accounts used to receive the allegedly wrongful payments was under the name of “O.W” who is Ms. Howard’s

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co-worker at FEMA. So there was (allegedly) collusion involved here as well.

Our second story was brought to our attention by the Society of Corporate Compliance and Ethics (SCCE). A routine email newsletter linked to [this story](#) at The Seattle Times, reporting that a (now) ex-Microsoft manager had been charged with three counts of wire fraud.

According to the story, Robert Curry, who had been fired by Microsoft in January 2011 and was being sued by his former employer for defrauding it of “nearly \$450,000”, had been a Director of Business Development for Microsoft’s Strategic Partnerships Team. He allegedly used his position and influence to persuade “unwitting vendors to cut him checks for services that were not provided to the company.”

What?

Apparently, Mr. Curry (allegedly) persuaded suppliers to cut him checks that were to be used to purchase items from other vendors for Microsoft’s use. For example (according to The Seattle Times story)—

Curry solicited money from one vendor, a manpower firm called Pentad, purportedly to pay another vendor for audio equipment for Microsoft, the complaint said. He allegedly told Pentad's managers that he needed the checks because of Microsoft's ‘slow purchase-order system.’ The complaint says Curry told Pentad officials that they should just bill Microsoft for the reimbursement as if it was billing for manpower services, not audio equipment.

Curry also allegedly had vendors bill Microsoft for ‘bounty fees’ related to the distribution of its Bing toolbar when they had nothing to do with it, according to the charges.

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What did Mr. Curry do with his allegedly ill-gotten money? According to the story, he “would then use the checks to buy personal items, including expensive audio equipment for a new home.” In addition, “he used more than \$150,000 of money allegedly bilked from Microsoft to invest in a struggling Seattle audio company, according to the complaint.”

Apparently this guy had a real thing for audio equipment....

A little bit of Googling turned up some more details of the situation.

Over [here](#) we learned that—

Curry formed the company Blu Games as a false distributor of the Bing Toolbar browser plug-in and billed Microsoft, through a contractor, based on fabricated invoices. As part of the alleged scheme, Microsoft says, Curry used fraudulent business contracts and forged his supervisor’s signature.

We also learned that—

Around Nov. 10, Curry got his manager to open a \$600,000 purchase order for Pentad’s new-found Bing toolbar distribution, according to the lawsuit. About a week later ... Curry told Pentad that Resolution Audio and his new front company, Blu Games, had ‘generated hundreds of thousands of downloads of the Bing toolbar, and ... were entitled to \$183,585 and \$152,200 respectively,’ ... Neither company had bona fide toolbar-distribution contracts.

Pentad hand delivered both checks to Curry, and then invoiced Microsoft for a reimbursement of \$450,918 plus a fee that Curry computed for \$60,132.... Microsoft paid Pentad back

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\$388,000 after discounts.

Curry allegedly upped the ante by telling Microsoft that Pentad's purchase order needed to be increased to \$3.7 million.... Along with the request, Curry submitted a distribution agreement between Pentad and Microsoft that included a forged signature of his manager, according to the lawsuit. Microsoft's Finance Group approved the increase.

We could not determine how Curry was caught, but indications were that it was the high dollar value of the transactions that surfaced them to management's attention.

Interestingly, one comment under The Seattle Times story had this point to add—

I have been a Microsoft vendor and their ridiculously slow payment process makes them the perfect target for this kind of scam. I don't condone the theft but I can't understand how a company like Microsoft can be so rude in dealing with their vendors. I solved my problem I now refuse to do business with them.

So to wrap this article up, let's note that implementation of proper controls and segregation of duties—including routine reviews of manual payments and supplier purchase orders—ought to be a part of every organization's compliance regime. But sadly, not enough organizations consider the costs of implementing such controls to be a value-added investment that pay for itself many times over, through prevention or detection of wrongdoing.