



# INVESTIGATIVE REPORT

Lori Torres, Inspector General

OFFICE: INDIANA AUDITOR OF STATE (AOS)

TITLE: AOS FRAUDULENT ACTIVITY

CASE ID: 2020-08-0245

DATE: January 5, 2021

*Indiana Office of Inspector General Staff Attorney Lyubov Gore, after an investigation by Inspector General Special Agent Michael Lepper, reports as follows:*

The Indiana General Assembly charged the Office of the Indiana Inspector General (OIG) with addressing fraud, waste, abuse and wrongdoing in the executive branch agencies of state government. Ind. Code §4-2-7-2(b). The OIG also investigates allegations of criminal activity and Code of Ethics violations within state government. Ind. Code §4-2-7-3. The OIG may recommend policies and carry out other activities designed to deter, detect and eradicate fraud, waste, abuse, mismanagement and misconduct in state government. Ind. Code §4-2-7-3(2).

On August 7, 2020, the OIG received a complaint regarding a case of potential fraud discovered in the Indiana Auditor of State's (AOS) Accounts Payable Division. According to the complaint, an unauthorized individual(s) hacked into an email account belonging to a state vendor (Vendor) that contracts with the Indiana Family and Social Services Administration (FSSA). The complaint alleged that the unauthorized individual diverted several payments of state funds that were intended for Vendor into fraudulent bank accounts. As a result of the suspected hack, several payments of state funds, together totaling \$311,731.12, that were intended to go to Vendor were diverted from FSSA to an incorrect bank account.

OIG Special Agent Michael Lepper investigated the matter. As a part of his investigation, Special Agent Lepper reviewed documentation and emails that he received from AOS regarding the hacked email account. Special Agent Lepper followed up with AOS employees and learned that, through the efficient manner in which AOS uncovered and handled the issues, the State was able to recover \$216,837.33 of the diverted payments. The remaining \$94,893.79 in state funds could not be recovered and became a loss to the State.

Special Agent Lepper interviewed an employee of the Vendor and confirmed that the Vendor's President's email was hacked. Access to the email address allowed the hacker(s) to set up bank accounts with a bank (Bank 1) and to change Vendor's bank deposit information so that payments from FSSA that were intended for Vendor were diverted into the Bank 1's accounts.

As part of his investigation, Special Agent Lepper communicated with Bank 1's employees and subpoenaed Bank 1's records. Through his review of Bank 1's records, Special Agent Lepper learned that the FSSA payments that were deposited into Bank 1's accounts were withdrawn from an account with a different bank (Bank 2). Special Agent Lepper located the nearest Bank 2 branch and worked in conjunction with the Indiana State Police to serve a subpoena on Bank 2. Through his review of documentation responsive to the subpoena, Special Agent Lepper identified the Bank 2 account holder who received the diverted state funds intended for Vendor. The Bank 2 account holder was located outside of Indiana.

Special Agent Lepper found no evidence to suggest that an Indiana state officer, employee or special state appointee was involved in carrying out the criminal activity. Special Agent Lepper referred this matter to the FBI for further investigation.

This is the eighth case the OIG has investigated concerning fraudulent changes of direct deposit forms or bank account information for state employees or vendors in the last three years. As noted in the Investigative Report for [Case ID 2020-08-0274](#), the State has successfully thwarted

several attempts at diverting state funds; however, these schemes are always changing, and the State should continue to look for ways to eliminate this type of fraud by emphasizing this type of fraud scheme with state agencies' vendors, CFOs, controllers and payroll clerks in order to defeat similar attempts.

For the reasons cited above, the OIG is closing this case as referred to the FBI.

Dated: January 5, 2021

APPROVED BY:

A handwritten signature in black ink that reads "Lori Torres". The signature is written in a cursive, flowing style.

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Lori Torres, Inspector General