



INVESTIGATIVE REPORT

Lori Torres, Inspector General

OFFICE: INDIANA AUDITOR OF STATE (AOS)
TITLE: AOS THEFT
CASE ID: 2020-08-0274
DATE: October 5, 2020

Inspector General Staff Attorney Kelly Elliott, after an investigation by Inspector General Special Agent Michael Lepper, reports as follows:

The Indiana General Assembly charged the Office of Inspector General (OIG) with addressing fraud, waste, abuse and wrongdoing in the executive branch of state government. Ind. Code §4-2-7-2(b). The OIG also investigates criminal activity and ethics violations by state workers. 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).

In August 2020, the OIG received a complaint alleging that an unauthorized individual (Suspect) impersonated a state employee (Employee) and attempted to obtain a direct deposit paycheck issued to Employee. The Auditor of the State (AOS) determined the request was fraudulent and did not process the change.

OIG Special Agent Michael Lepper investigated the matter. As a part of his investigation, he reviewed documentation received from AOS related to the attempted theft. He learned that Suspect submitted a request to Employee's agency (Agency) for a change in direct deposit by using an email account that appeared to belong to Employee. Suspect provided the Agency a fraudulent W-9, AOS Direct Deposit form and a voided check along with his or her request.

Suspect requested that the State deposit Employee's paychecks into an Arvest Bank checking account. The Agency submitted Suspect's request to AOS, but AOS did not process the change after determining the request was fraudulent. Special Agent Lepper interviewed Employee and showed him a copy of the fraudulent AOS Direct Deposit form. Employee verified that he did not complete the form and stated that the form did not contain correct information.

Special Agent Lepper sought to obtain ownership information for the Arvest Bank checking account listed on the AOS Direct Deposit Form. He learned that Arvest Bank's principal office is in Arkansas and the bank does not do business in Indiana. An Arvest Bank representative stated that the bank would not honor the OIG's out-of-state subpoena for account information. Special Agent Lepper sought assistance from a law enforcement agency in Arkansas in serving a subpoena on Arvest Bank; however, the agency stated it could not process a subpoena for this case unless the alleged crime or victim resided in Arkansas.

Because the OIG confirmed that there was a fraudulent attempt to manipulate the direct deposit form and attempted theft of Employee's funds, Special Agent Lepper reported this matter to the fraud division of Arvest Bank. The OIG was unable to refer this matter to law enforcement in another jurisdiction because it was unable to access the account holder's name or address due to Arvest Bank's refusal to honor the OIG subpoena.

Special Agent Lepper found no evidence to suggest that an Indiana state officer, employee or special state appointee was involved in carrying out the attempted theft. AOS did not process the fraudulent request, and neither the State of Indiana nor Employee suffered any financial loss. Furthermore, Arvest Bank declined to cooperate with the OIG's subpoena, making it difficult to pursue this investigation further.

This is the seventh case the OIG has investigated concerning fraudulent changes of direct deposit forms for state employees or vendors in the last three years. Some attempts have been successful in diverting funds, but due to enhanced efforts by the AOS and others, the State has thwarted several attempts, such as this one. The AOS has employed various methods to independently verify the validity of change of direct deposit forms. The AOS has adapted and changed its procedures several times as would-be fraudsters have modified their approaches. The OIG recommends that the AOS continue to scrutinize change of deposit forms and to emphasize this type of fraud scheme with state agencies' CFOs, controllers and payroll clerks in order to defeat similar attempts.

For the reasons cited above, the OIG is closing this case for insufficient cause.

Dated: October 5, 2020

APPROVED BY:

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

Lori Torres, Inspector General