

**Agencias Universales S.A.  
Embezzlement Report  
For the Period January 1, 2002 to June 30, 2003**

**National Science Foundation  
Office of Inspector General**

**March 22, 2007  
NSF OIG-07-1-008**



***PKF Witt Mares***  
10304 Eaton Place, Suite 440  
Fairfax, Virginia 22030  
Tel: (703) 385-8809  
Fax: (703) 385-8890



[Redacted]

[Redacted]

**TABLE OF CONTENTS**

	<b>Page</b>
<b>Executive Summary</b>	
Background .....	4
Objectives, Scope and Methodology .....	5
Summary of Findings .....	5
Exit Conference.....	7
<b>Review Report and Findings</b>	
Independent Accountant’s Review Report .....	8
Findings .....	9
<b>Supplementary Information Attachment</b>	
Attachment A – Response from Agencias Universales S.A. (AGUNSA) .....	16

## **EXECUTIVE SUMMARY**

## EXECUTIVE SUMMARY

National Science Foundation  
Office of the Inspector General  
4201 Wilson Boulevard  
Arlington, Virginia 22230

### Background

---

Raytheon Polar Services Company (RPSC) notified the National Science Foundation (NSF) of a potentially fraudulent act committed by employees of its subcontractor Agencia Universales S.A. (AGUNSA), which is responsible for performing NSF ship chandlery duties. Ship chandlery involves the dockside supply of food, fuel, and equipment to the Research Vessel (RV) Gould and RV Palmer at Punta Arenas, Chile. The AGUNSA subcontract is approximately [REDACTED] annually and is expected to continue through Fiscal Year 2009. Although a Chilean company, AGUNSA, as a subcontractor on the NSF contract, is required to follow all applicable contract requirements in the Federal Acquisition Regulations (FAR).

AGUNSA is a Chilean company with annual sales of [REDACTED] in the maritime port services sector in Latin America, including a total of 39 offices distributed in 10 countries: Perú, Ecuador, Colombia, Argentina, Paraguay, Venezuela, U.S.A. (Miami), Jamaica, Mexico and Chile. AGUNSA is considered to be a large company in Chile, and has begun to play an important role in the international transport sector, providing such services as cargo handling, bunkering, tug services, serving as a logistics and stevedoring agent, and airport concessions. Overall, the Company employs approximately 1,200 people.

In 2003, two AGUNSA employees at the Punta Arenas office were charged and convicted in a Chilean court of embezzling funds using a vendor invoice lapping scheme through which payments intended for vendors were diverted. The employees delayed payments intended for AGUNSA vendors in order to divert the funds for their own private use. The two employees involved in the embezzlement were [REDACTED]. The embezzlement was uncovered when vendors complained about late or missing payments.

Historically, the Company has been managed on the basis of trust, and there has been very low employee turnover. Most employees have been with the Company for many years. In fact, the two embezzlers had each been with the Company for over 15 years. According to Company officials, the embezzlement that took place in the Punta Arenas office has been a major source of embarrassment for AGUNSA.

In August 2004, the two employees were arrested, tried, and jailed. Both were released and are appealing their convictions. Their preliminary convictions were based on their confessions of guilt that they now seek to appeal. A new judge was assigned to the case, but a date for hearing the appeal has not been scheduled as of the date of this report.

## Objectives, Scope, and Methodology

---

The objectives of our review were to: 1) determine whether NSF and/or other federal funds were diverted for personal use by AGUNSA's employees; 2) if a diversion occurred, identify the amount of funds and the time period involved; and 3) identify the events that allowed the embezzlement to occur without immediate detection. We also reviewed AGUNSA's internal controls over its vendor payment process to identify weaknesses and recommend corrective actions to safeguard NSF funds for the remaining term of the subcontract.

We have reviewed the documentation surrounding the embezzlement (vendor invoice lapping scheme) by the two AGUNSA employees, for the period January 1, 2002 to June 30, 2003. We conducted our review at the AGUNSA main office located in Valparaiso, Chile and at the Punta Arenas office, in May 2005.

Our review was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards (June 2003 revision)*, issued by the Comptroller General of the United States. A review is substantially less in scope than an examination, the objective of which would be to express an opinion on the extent of the embezzlement (lapping scheme) noted above. Accordingly, we do not express such an opinion. If we had performed additional procedures, other matters might have come to our attention that would have been reported to you.

To achieve the audit objectives, we applied selective and random sampling techniques to select and test AGUNSA's RPSC invoices. We inspected AGUNSA's financial management, human resources, and financial accounting system procedures. We also inspected the internal management and financial reports, financial audit reports, contract documentation, annual financial reports, job descriptions, and all other relevant background documentation that was made available to us, including the AGUNSA-commissioned [REDACTED] CPA Firm Audit Report<sup>1</sup> and the Chilean Police's Economic Crime Unit Report.

## Summary of Findings

---

We determined that funds intended for invoice payment had been diverted for personal use by two AGUNSA employees from the period January 1, 2002 to May 31, 2003. These invoices were later billed to RPSC and then NSF. AGUNSA had no other U.S. government contracts. Our review of invoices for that period disclosed that the embezzlement loss to AGUNSA totaled approximately \$157,000<sup>2</sup> of which approximately \$7,200 related to AGUNSA's subcontract with RPSC. The two employees involved in the embezzlement were [REDACTED]. We also identified that up to approximately \$616,000 of potentially lapped (delayed) payments to vendors servicing the RPSC contract could have been part of the embezzlement scheme. AGUNSA, after the discovery of the embezzlement in May 2003, held itself accountable for the employees' embezzlement and made payments to all affected parties, including \$7,200 to the RPSC vendors.

---

<sup>1</sup> AGUNSA hired the CPA firm of Guerra Raby to produce a report which outlined the extent of the embezzlement in terms of outstanding unpaid vendor invoices.

<sup>2</sup> All monetary amounts identified in this report are stated in U.S. dollars unless otherwise indicated.

In general, AGUNSA's lack of management oversight, lack of internal control over the accounting and vendor payment process, failure to enforce its own policies and procedures, and noncompliance with the RPSC subcontract terms enabled the embezzlers to perpetrate the vendor invoice lapping scheme. Properly designed internal controls that are monitored and enforced could have prevented or allowed earlier detection of the embezzlement. See the NSF OIG Report No. OIG-07-1-009 titled *Agencias Universales, S.A. Internal Control Report For the Period January 1, 2005 to May 15, 2005*, for further discussion of AGUNSA's internal controls and recommendations for corrective actions.

The following is a brief description of our findings surrounding the embezzlement.

1) AGUNSA Employees Embezzle Approximately \$157,000, Including Approximately \$7,200 of RPSC<sup>3</sup> Funds

Approximately \$157,000 was embezzled by two Punta Arenas [REDACTED], of which approximately \$7,200 related to two vendors on the RPSC subcontract. Based on our discussions with AGUNSA management; review of court documents, accountant reports, and NSF materials, along with our review procedures, we concluded that an embezzlement (diversion of funds by use of a vendor invoice lapping scheme) was perpetrated by two employees in the Punta Arenas office of AGUNSA. The embezzlement was discovered in May 2003 after a vendor complained to the Office Manager at AGUNSA's Punta Arenas office that old invoices were unpaid. AGUNSA paid the outstanding invoice amounts to the RPSC and other vendors at the time the embezzlement was discovered. Properly designed and enforced internal controls could have prevented or allowed for earlier detection of the embezzlement.

2) Lapping Scheme May Have Affected As Much As \$616,000 of RPSC<sup>4</sup> Funds

Based on the amount of invoice payments that were delayed during the 17 months prior to discovery of the embezzlement; May 2003, we estimate that as much as \$616,000 of RPSC related funds may have been lapped or diverted, including the \$7,200 actually embezzled and discovered at the end of the embezzlement period. These funds should have been used to make timely (within 30 days of recording the receipt of the invoice) payment of vendor invoices associated with the RPSC subcontract, as required by the FAR and the RPSC subcontract terms and conditions.

3) Lack of Internal Controls, Lack of Management Oversight, Lack of Enforcement of Corporate Policies, and Collusion Allowed the Embezzlement to Occur Without Being Readily Detected.

The vendor invoice lapping scheme perpetrated in the Punta Arenas office went undetected principally due to a lack of segregation of accounting duties, [REDACTED] and AGUNSA's lack of management oversight, failure to enforce its own policies and procedures in the vendor payment process, and noncompliance with the RPSC subcontract terms. In collusion

---

<sup>3</sup> Tracing funds to RPSC-related vendors was used to determine the amount of NSF or RPSC funds that were diverted.

<sup>4</sup> The term "RPSC-related funds" is used to designate those funds which were to have been paid to AGUNSA vendors under the RPSC subcontract.

with the [REDACTED]  
[REDACTED] also did not provide proper oversight in his role as the [REDACTED] in that [REDACTED] documentation supported each payment, accounting records were updated properly, or invoices were paid promptly in accordance with AGUNSA policies and procedures.

Specifically, the poor internal controls that allowed the embezzlement to occur included:

- 1) [REDACTED]
- 2) the poor oversight of the [REDACTED] over the [REDACTED] and [REDACTED]
- 3) the failure to enforce the company policies that require that checks be restricted for deposit only;
- 4) the failure of the Punta Arenas Office to comply with company policy which requires the reconciliation of invoices, checks and accounting records; and,
- 5) the lack of timely payment of invoices. These weaknesses, coupled with collusion, allowed the two employees to embezzle funds, delay vendor payments, and manipulate accounting records.

To accompany this report that describes AGUNSA's embezzlement, we have also prepared an internal control report that provides recommendations to improve the weaknesses in internal controls that allowed the embezzlement to occur. In addition, we identify the internal controls in AGUNSA's vendor payment process that were put in place after the discovery of the embezzlement and after the vendor payment procedures were revised. That report identifies the weaknesses in internal controls that still exist, the controls that were subsequently in place but not adequately designed, and the controls that were adequately designed but not followed or enforced. See the NSF OIG Report No. OIG-07-1-009 titled *Agencias Universales S.A. Internal Control Report For the Period January 1, 2005 to May 15, 2005*.

For a complete discussion of the audit findings, refer to the *Independent Accountant's Review Report on Agencias Universales SA Embezzlement*.

## Exit Conference

---

We attended an onsite exit conference with AGUNSA in December 2005. [REDACTED] (PKF Witt Mares) met with [REDACTED] to present in detail, and obtain comment on, our preliminary findings. We were informed that they agreed with some of the findings and had various levels of disagreement with certain other findings and would like the opportunity to respond in writing.

We presented AGUNSA with a draft report on March 2<sup>nd</sup>, 2007 to which they responded in writing on March 15<sup>th</sup>, 2007. AGUNSA's response dated March 15<sup>th</sup>, 2007, indicated that, in general, they agreed with the findings in this report. AGUNSA's response has been included in its entirety in Attachment A.



**INDEPENDENT ACCOUNTANT'S REVIEW REPORT ON  
AGENCIAS UNIVERSALES S.A.  
EMBEZZLEMENT**

## INDEPENDENT ACCOUNTANT'S REVIEW REPORT

National Science Foundation  
Office of the Inspector General  
4201 Wilson Boulevard  
Arlington, Virginia 22230

To the National Science Foundation  
Office of the Inspector General

We have reviewed the documentation surrounding the embezzlement (lapping scheme) by two Agencias Universales S.A. (AGUNSA) employees for the period January 1, 2002 to June 30, 2003. AGUNSA is a Chilean subcontractor to Raytheon Polar Services Corporation (RPSC), a National Science Foundation (NSF) contractor. We performed our review in May, 2005. AGUNSA's management did not provide us with a written assertion about the extent of the lapping scheme for the periods described above.

Our review was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards (June 2003 revision)*, issued by the Comptroller General of the United States. A review is substantially less in scope than an examination, the objective of which would be the expression of an opinion on extent of the embezzlement (lapping scheme) noted above. Accordingly, we do not express such an opinion.

Based on our review, nothing came to our attention to indicate that additional funds, above the \$7,200 noted in our report relating to the RPSC subcontract, were embezzled as of the time of discovery of the embezzlement in May 2003. However, we estimate that as much as \$616,000 in payments for RPSC-related invoices could have been involved in the lapping scheme, based on the time period (delay) in payment of invoices to vendors. We performed testing to ascertain if any RPSC subcontract terms were violated as a result of the embezzlement. We concluded that subcontract terms had been violated. The Findings are attached and are an integral part of this report.

This report is intended solely for the information and use of the Office of Inspector General of the National Science Foundation and is not intended to be and should not be used by anyone other than the specified party.

*PKF WITT MARES PLL*

PKF Witt Mares, PLC  
Fairfax, Virginia.  
May 27, 2005

## FINDINGS

***Finding No. 1: AGUNSA Employees Embezzle Approximately \$157,000, Including Approximately \$7,200 of RPSC Funds.***

During May of 2003, AGUNSA discovered approximately \$157,000 was embezzled through a vendor invoice lapping scheme committed by two Punta Arenas [REDACTED] [REDACTED] of which approximately \$7,200 related to two vendors on the RPSC subcontract. A vendor invoice lapping scheme is an embezzlement of funds where payments intended for a vendor are diverted by individuals for their personal use or to cover the costs of previously delayed or diverted payments to prevent detection of the embezzled funds. The scheme may continue to go undetected because accounting records are altered by the embezzler to reflect that invoices are paid, when in fact the funds are embezzled. They are eventually paid with funds that are intended to pay for subsequent invoices or vendors.

Specifically, the embezzlement lapping scheme was perpetrated by the Punta Arenas [REDACTED] [REDACTED] and the [REDACTED]. These employees used AGUNSA company checks to fund the fraudulent vendor invoice lapping scheme. Although AGUNSA company policy requires that checks are restrictively marked on the face of the instrument to designate that the payment should be deposited in the vendor's bank account, the embezzlers conspired to write the checks to themselves or to vendors and then divert the funds for their own personal use or to make payments to the vendors whose original payments had been diverted.

The Punta Arenas [REDACTED] [REDACTED]. Accordingly, the lack of effective oversight by the [REDACTED] combined with the collusion of the two [REDACTED] significantly extended the amount of time the lapping scheme operated and was undetected.

In October 2002, during the period of the embezzlement, AGUNSA changed its method of paying certain vendors by switching to "vale vistas"<sup>5</sup> instead of using individual checks. This process required the local Punta Arenas office to submit a list of the vendors to be paid by the AGUNSA central office in Valparaiso, accompanied with detailed information of which invoices were being paid. The Company's central office would then issue one check to the local Punta Arenas bank covering the amount of all the invoices, and the local AGUNSA office would submit to the local bank the list of specific vendors to be paid.

This process allowed the [REDACTED] and the [REDACTED] to continue to alter the original vendor list (originally sent to the central office) and take an altered list to the local bank. This altered list allowed them to continue to perpetrate the embezzlement scheme, although the corporate records showed the payments had been made to the list of original vendors. In 2003, after the discovery of the embezzlement, AGUNSA properly made changes in the Company's invoice payment policy and procedures to require

---

<sup>5</sup> Vale Vista is a process by which a company check is issued (or funds transferred) to a bank from which multiple vendors are paid.

Agencias Universales S.A. Embezzlement Report  
For the Period January 1, 2002 to June 30, 2003

---

that most large vendors now be paid directly from the central office in Valparaiso by electronic payment transfers, thus avoiding potential modification of the list of invoices to be paid at the local office level. However, some payments are still made by check and cash at the Punta Arenas office but these payments are treated as exceptions and must be approved by the finance department at Valparaiso. In addition to failing to follow Company policy for cash disbursements, the office in Punta Arenas also failed to comply with a Company policy that required all cash flow activity to be reconciled and posted daily. In Punta Arenas, this policy was not enforced, and there were times when transactions were left “pending” or “not transmitted” until the month-end closing. This, too, was a factor in not detecting the embezzlement.

The embezzlement was discovered in May 2003 after a vendor complained to the Office Manager at AGUNSA’s Punta Arenas office that old invoices were unpaid. Approximately \$157,000 had been diverted for personal use by the two employees from payments intended for five vendors. In particular, 18 invoices valued at approximately \$7,200 specifically related to goods and services on the RPSC contract that were provided by two of the five affected vendors. These two RPSC vendors experienced delayed payments of between 49 to 105 days, with an average delay of 83 days; most delays were 86 days beyond the “net 32 days” allowed by AGUNSA’s policy.

As soon as the embezzlement was discovered in May 2003, payments were made by AGUNSA to all vendors with outstanding invoices. Accordingly, RPSC and NSF incurred no economic loss as a result of the embezzlement except for costs related to determining the extent and nature of the embezzlement. Similarly, other than the opportunity to earn interest on unpaid invoices, AGUNSA vendors also suffered no economic loss.

***Finding No. 2: Lapping Scheme May Have Affected As Much As \$616,000 of RPSC funds.***

We estimate that as much as \$616,000 of RPSC-related funds may have been lapped or diverted based on the amount of invoice payments that were delayed during the 17 months prior to discovery of the embezzlement in May 2003. We estimated this amount based on the actual invoices for goods and services provided under the RPSC contract that were paid more than 61 days late. AGUNSA's policy is to pay vendors in 30 days of recording the invoice on its books and, in Punta Arenas, the industry standard for vendor payments is 60 days. Therefore, allowing for the industry standard, there was a high likelihood that the invoices paid beyond 61 days (i.e. past the industry standard and AGUNSA's policy), were part of the lapping scheme and not just mistakenly paid late by AGUNSA. Also, because the embezzlers used current vendor payments to pay for the older lapped invoices and were likely increasing the amount of their embezzlement over time, the vendor payment period and the volume of invoices required to cover the lapping scheme increased. As more funds and time to pay the invoices were required, extra vendor credit (in days) and more vendor payments (in currency) were needed.

For the period from January 1, 2002 to June 30, 2003, there were approximately 1700 invoices totaling [REDACTED] associated with the RPSC subcontract. Using invoices as the sampling unit, 15 invoices out of a sample of 69 (approximately 22%) were paid beyond the invoice net 30 terms by an additional 31 days and an additional 45 days in 2002 and 2003, respectively. We used 61 days and 75 days in 2002 and 2003, respectively, because the length of the time increased over the course of the lapping scheme. These 15 invoices had a U.S. dollar value of [REDACTED] (approximately 26%) of the total sample value of \$45,864. A consistent level of exception (throughout the population from which our sample was drawn) translates to approximately 370 invoices, with an approximate dollar value of [REDACTED]. These are invoices that we estimate to have been paid after 61 days in 2002 and after 75 days in 2003; and as such, were likely to have been involved in the lapping scheme.

***Finding No. 3: Lack of Internal Controls, Lack of Management Oversight, Lack of Enforcement of Corporate Policies, and Collusion Allowed the Embezzlement to Occur Without Being Readily Detected.***

The vendor invoice lapping scheme perpetrated in the Punta Arenas office went undetected principally due to a [REDACTED] [REDACTED] AGUNSA's lack of management oversight, failure to enforce its own policies and procedures in the vendor payment process, and noncompliance with the RPSC subcontract terms. In collusion with the [REDACTED] [REDACTED] and did not assure proper oversight of recording and payment of invoices. The [REDACTED] [REDACTED] documentation supported each payment, accounting records were updated properly, or invoices were paid promptly in accordance with AGUNSA policies and procedures.

Specifically, the poor internal controls that allowed the embezzlement to occur included 1) a lack of segregation of accounting and payment duties of the Office Cashier; 2) the poor oversight of the [REDACTED] over the [REDACTED] 3) the failure to enforce the company policies that require that checks be restricted for deposit; 4) the failure of the Punta Arenas Office to comply with company policy which requires the reconciliation of invoices, checks and accounting records; and 5) lack of timely payment of invoices. These weaknesses, coupled with collusion, allowed the two employees to embezzle funds, delay vendor payments, and [REDACTED].

Listed below is a detailed description of the weaknesses in internal controls over the vendor payment process that allowed the embezzlement to occur without being readily detected.

1. Lack of the segregation of [REDACTED]:

[REDACTED]

2. Poor oversight of the [REDACTED]:

[REDACTED]

Agencias Universales S.A. Embezzlement Report  
For the Period January 1, 2002 to June 30, 2003

---

[REDACTED]

By restrictively marking the face of the check, the writer of the check signifies the type of check being issued. At AGUNSA, the embezzlers, through some minor modifications to the checks were able to write the checks to themselves or in the name of the vendor but, in either event, were able to cash them or deposit them into their own bank accounts. As a result, the [REDACTED] did not detect that these easily transferable checks were prepared incorrectly (without restricting who could receive the funds)<sup>6</sup> before [REDACTED] should have detected that the [REDACTED]

[REDACTED]. These oversight failures significantly extended the amount of time the lapping scheme went undetected and ultimately resulted in an approximate \$157,000 loss to AGUNSA. The embezzlement was only detected because a vendor complained to the Punta Arenas [REDACTED] of delayed payments.

3. Failure to enforce the company policies that require that checks be restricted for deposit only:

Company policy requires that checks be restricted for “deposit only” unless they were paying for local government services, for example, dockside services, which required the use of an “open” check. Open checks are checks written in a manner where they are negotiable instruments that can be cashed by the bearer. The [REDACTED] failed to [REDACTED] could be cashed at the bank by anyone and without any type of endorsement. The [REDACTED] and to vendors and because they were not restricted for deposit only, had the opportunity to deposit them in [REDACTED] bank account.

As stated in Finding 1, in October 2002, during the period of the embezzlement, AGUNSA changed its method of paying certain vendors by switching to "vale vistas" instead of using individual checks. This process required the local Punta Arenas office to submit a list of the vendors to be paid by the AGUNSA central office in Valparaiso, accompanied with detailed information of which invoices were being paid. The Company's central office would then issue one check to the local Punta Arenas bank covering the amount of all the invoices, and the local AGUNSA office would submit to the local bank the list of specific vendors to be paid.

This process allowed the [REDACTED] and the [REDACTED] continue to alter the original vendor list (originally sent to the central office) and take an altered list to the local bank. This altered list allowed them to continue to perpetrate the

---

<sup>6</sup> Restrictively marking the front of the check would have prevented the checks from being used as “bearer” instruments.

Agencias Universales S.A. Embezzlement Report  
For the Period January 1, 2002 to June 30, 2003

---

embezzlement scheme, although the corporate records showed the payments had been made to the list of original vendors.

In 2003, after the discovery of the embezzlement, AGUNSA properly made changes in the Company's invoice payment policy and procedures to require that most large vendors now be paid directly from the central office in Valparaiso by electronic payment transfers, thus avoiding potential modification of the list of invoices to be paid at the local office level. However, some payments are still made by check and cash at the Punta Arenas office but these payments are treated as exceptions and must be approved by the finance department at Valparaiso.

4. Failure of the Punta Arenas Office to comply with company policy which requires the reconciliation of invoices, checks and accounting records.

The office in Punta Arenas also failed to comply with a Company policy that required all cash flow activity, including checks, invoices paid, and accounting records, to be reconciled and posted daily. In Punta Arenas, this policy was not enforced, and there were times when transactions were left "pending" or "not transmitted" until the month-end closing. This, too, was a factor in not detecting the embezzlement. A vendor check would be written on a certain date. The vendor would be notified of which invoices were being paid and would cash the check, but the [REDACTED]

[REDACTED]. During the embezzlement period, as far as the central office was concerned, all vendor accounts were current and in compliance with the Company's 30-day payment policy.

5. Lack of Timely Payment of Invoices:

AGUNSA did not follow or enforce the RPSC subcontract terms or Federal Acquisition Regulation (FAR) requirements requiring payment to vendors within terms stipulated on the invoice (usually 30 days). This elongated the time in which the embezzlers could divert the funds and perpetrate the embezzlement. Specifically, the RPSC subcontract incorporates by reference the FAR that requires, for an AGUNSA invoice submission to RPSC to be eligible, AGUNSA vendors must be paid within terms stipulated on the invoice (usually 30 days). In addition, AGUNSA's policy requires that vendor invoices be paid within 32 days (2 days for entry into AGUNSA's accounts payable system and 30 day payment policy); however, that policy fails to meet the 30-day vendor invoice payment requirement of the RPSC subcontract.

AGUNSA officials state that the standard practice for payment of vendor invoices in Punta Arenas is 60 days or more. The embezzlers in the Punta Arenas office delayed vendor payments beyond the 30 day AGUNSA policy by a further 83 days (average) or more as part of their embezzlement scheme. If AGUNSA management had enforced its own policy for vendor invoice payment within 32 days, the embezzlers' ability to successfully execute their embezzlement scheme would have been limited.



Agencias Universales S.A. Embezzlement Report  
For the Period January 1, 2002 to June 30, 2003

---

Although, the RPSC subcontract with AGUNSA incorporates by reference RPSC TC-002 Raytheon Company Standard Terms and Conditions, FAR Provisions, AGUNSA management was not aware that the subcontract, incorporates certain provisions from the FAR by reference, and that AGUNSA therefore has to comply with the FAR as part of the subcontract. Therefore, the AGUNSA internal control system was not adequate to ensure compliance with the terms and conditions of the subcontract with RPSC and the applicable FAR. This directly impacted AGUNSA's ability to make timely payments to vendors in compliance with NSF and Federal requirements and inhibit the embezzlement scheme.

6. Collusion of the two employees ( [REDACTED]  
[REDACTED] ) to embezzle vendor payments:

The Office Cashier was in collusion with the Punta Arenas [REDACTED]  
[REDACTED], who was in charge of signing checks along with the [REDACTED]. The Administrative and Finance Manager purposely signed the checks and did not assure proper oversight of recording and payment of invoices, especially in the use of open checks, which could be cashed by anyone and without any type of endorsement. These activities coupled with the violations of company policy and the lack of enforcement and oversight by the Office Manager, caused the embezzlement to go undetected. The collusion also resulted in false payment information being recorded in the AGUNSA central accounting system.

In conclusion, all of these conditions enabled the embezzlers to perpetrate the vendor invoice lapping scheme without readily being detected. Properly designed internal controls that are monitored and enforced could have prevented or facilitated earlier detection of the embezzlement.

To accompany this report that describes AGUNSA's embezzlement, we have also prepared an internal control report that provides recommendations to improve the weaknesses in internal controls that allowed the embezzlement to occur. In addition, we identify the internal controls in AGUNSA's vendor payment process that were put in place after the discovery of the embezzlement and after the vendor payment procedures were revised. That report identifies the weaknesses in internal controls that still exist, the controls that were subsequently in place but not adequately designed, and the controls that were adequately designed but not followed or enforced. See the NSF OIG Report No. OIG-07-1-009 titled *Agencias Universales S.A. Internal Control Report For the Period January 1, 2005 to May 15, 2005*.

**SUPPLEMENTARY INFORMATION  
ATTACHMENT**

**ATTACHMENT A**  
**RESPONSE FROM AGENCIAS UNIVERSALES S.A. (AGUNSA)**

**From:** [REDACTED]  
**Sent:** Thursday, March 15, 2007 6:30 PM  
**To:** [REDACTED]  
**Cc:** dcureton@nsf.gov; [REDACTED]  
**Subject:** RE: Internal control and Embezzlement report

John

Please find enclosed our comments about yours reports

Regards  
[REDACTED]

PKF Witt Mares, PLC  
FAIRFAX, Virginia  
Att: Mr. [REDACTED], ACA, CGFM, CPA, CFE  
[REDACTED]

On Monday March 5, 2007, we received by email two reports prepared by PKF UIT Mares for NSF: Internal Control Report and Embezzlement Report. Both reports respectively cover the fraud happened in our signature in Punta Arenas during the period of 2002 and first six months of 2003, just like the state of our internal controls to the date of the investigation made by PKF Witt Mares between March and May 2005. PKF Witt Mares has giving us until March 16<sup>th</sup>, 2007 to make commentaries about both reports, if we want those commentaries added to the reports.

Do to the short time given to answer, the long period passed between the fraud and the investigation, and the fact that in our opinion the most relevant observations made in the reports had already surpassed, we now proceed to make a General Statement about the case covered by the reports:

1. Agunsa is committed on providing outstanding quality services to NSF throughout its contract with Raytheon. That is how is been done uninterruptedly from the beginning of the contract in the year XXXX until today. Throughout the period of the contract, it had done the necessary adjustments to the operative and administrative procedures with the intention of giving a better service, always-previous agreement with Raytheon.
2. Agunsa is proud of promoting transparency as one of its fundamental values. From the moment the fraud was discovered by us, we immediately informed Raytheon about the facts, taking the necessary measures: to restitute the funds to all the defrauded parts, to dismiss and to process the people responsible for the fraud, and to correct the possible operative and administrative faults. To this date we can confirm that :

Agencias Universales S.A. Embezzlement Report  
For the Period January 1, 2002 to June 30, 2003

---

- Just as it is indicate in the report, Independent accountants review report in the actual revision indeed of the amounts only involved \$7.200 were related to the RPSC and they were not affected
- Additionally this is effective it was never incurred in a lost one economic neither NSF stops neither RPSC stops
- All the defrauded parts indeed were restituting from the funds owed respectively.
- The responsible employees were fired and Agunsa filed a legal complain against them. These employees have done provisional jail time, failed against them recently, being in an appeal process. Our lawyers keep working in the case until they obtain the maximum possible pains for the responsible.
- Since the discovery of the fraud, we have implemented numerous measures to fortify our internal controls and to try to prevent that an incident of this type happens in our firm again.

The main measures taken include:

- i. Complete reorganization of the Punta Arenas Agency. Flowchart attached. The different activities properly separate operative and administrative functions.
  - ii. Greater supervision and pursuit on behalf of the central office by the internal audit unit, finances department and accounting department. This includes the centralized control of payments, revision of the registration of the invoices and their cost and their payment.
  - iii. Clear definition of procedures and employee duties.
3. Although we did not share some precise conclusions of the reports, in general we agree with them.

We agree in the way you describe how of the fraud was made, describing in detail how it was operated to commit the fraud and the amount of it (embezzlement report).

In the other report (internal control report), a series of weaknesses of internal controls are indicated, so are their respective recommendations for the improvement of them. We appreciate those recommendations, most of which have already been implemented.

However, we cannot accept the points 3 and 9 indicated in the internal controls report.

The points 3 indicate that the [REDACTED] did not make the supervision of the changes in the systems and procedures. That is not correct; the instruction was given and completed immediately, that why it was not needed another action by the board.

The point 9 neither are acceptable since Agunsa as Agent has a primordial duty we should be diligent, look after the interests of all our represented. AGUNSA has never charged a non-received service, the point it should not been put in the report and it is not acceptable.

Agencias Universales S.A. Embezzlement Report  
For the Period January 1, 2002 to June 30, 2003

---

4. To finish, we want to declare that this fraud was a very isolated event, unique in the history of our company. Collusion of two key employees and with many years working for Agunsa was one of the main causes by which we didn't identify the problem previously, managing to elude the internal controls of the company. This case improves our internal control, and allows us to improve our procedures.

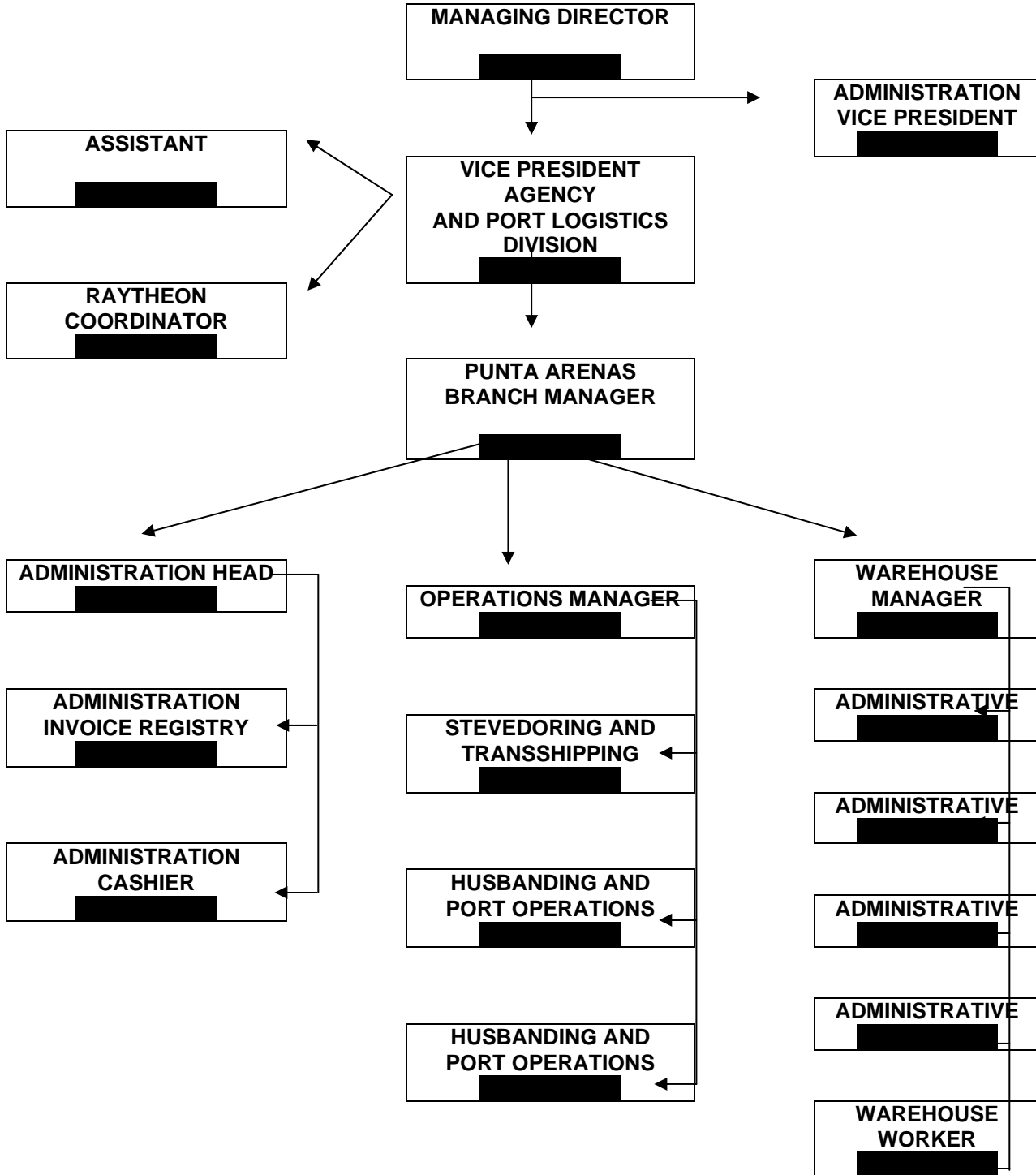
We hope that this incident had clarified, and reiterate to NSF our commitment with the quality and the transparency, and we are open to continue collaborating with the intention of providing the best possible service.

Our best regards,

, AGUNSA



### General organization for Raytheon Contract



Agencias Universales S.A. Embezzlement Report  
For the Period January 1, 2002 to June 30, 2003

At Punta Arenas, Chile, JANUARY 1th , 2007

**CERTIFICATE**

We certify that regarding following trash picked up from ARSV R/V L.M. GOULD was disposed at  
spill are authorized by Chilean Government in order to comply Chilean law:

DATE	TRASH TYPE
DECEMBER 27th TO JANUARY 1th	INORGANIC TRASH FROM LMG06-14
	26 M3



Areas Verdes Ltda.  
Punta Arenas, Chile

  
AREAS VERDES  
Fono (061) 211956 F.  
Mardones 220 - Cañiña 1227  
Punta Arenas - CHILE



Agencias Universales S.A. Embezzlement Report  
For the Period January 1, 2002 to June 30, 2003

At Punta Arenas, Chile, FEB. 16, 2007

**CERTIFICATE**

We certify that regarding following trash picked up from ARSV R/V L.M. GOULD, was disposed at spill are authorized by Chilean Government in order to comply Chilean law:

DATE	TRASH TYPE
FEB. 11 TO FEB. 16 / 2007	INORGANIC TRASH FROM L.M.G.
	19,5 M3



Areas Verdes Ltda.  
Punta Arenas, Chile



  
AREAS VERDES  
Fono (061) 211956 F  
Mardonas 220 - Casilla 1227  
Punta Arenas - CHILE



Agencias Universales S.A. Embezzlement Report  
For the Period January 1, 2002 to June 30, 2003

At Punta Arenas, Chile, 08 MARCH

2007

**CERTIFICATE**

We certify that regarding following trash picked up from ARSV R/V L. M. GOULD was disposed at  
spill are authorized by Chilean Government in order to comply Chilean law:

DATE	TRASH TYPE
FROM MAR. 01 TO MAR.08/2007	INORGANIC TRASH FROM LMG.
	19,5 M3

[REDACTED]  
Areas Verdes Ltda.  
Punta Arenas, Chile

AREAS VERDES S.A.  
Fono (61) 211956 F. (61) 21002  
Mardones 399 - La 1257  
Punta Arenas - CHILE

