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Yale \$40 million fraud serves up lessons in internal controls

[By Liese Klein](#)

How do you lose track of \$40 million?

That's been the question on many people's minds this week as news spread of a [plea deal in a massive embezzlement](#) at the Yale School of Medicine.

The top-ranked Ivy League graduate school that charges its students \$42,120 a year in tuition somehow managed to overlook an employee's 10-year scheme to sell the university's property, which netted her nearly \$100,000 a week as of early 2021.

Jamie Petrone, the former director of finance at the medical school's department of emergency medicine, pleaded guilty on Monday in U.S. District Court to one count of wire fraud and one count of filing a false tax return. According to court documents, she ordered millions of dollars of electronic hardware from Yale vendors using medical school funds, then sold the goods to a New York man who forwarded the proceeds to an account she controlled.

It's one thing to miss the flashy designer clothes that Petrone was wearing on social media and the Range Rover and Cadillac Escalade she was driving, according to court records. But what was going on in the university's accounting and finance ranks that such a major diversion of university funds could continue for nearly 10 years?

Similar large-scale [embezzlements happen much more frequently than most realize](#) at a range of companies and nonprofits, said [Ethan Brysgel, national financial accounting and advisory services leader for Marcum, an accounting firm with offices in New Haven.](#)



PHOTO | CONTRIBUTED
Ethan Brysgel

Even the most well-established organizations — Yale Medical School was founded in 1810 — are not immune. As entities grow and change, constant updating of financial systems is needed.

“What we see a lot of times is companies that are very mature, they've been around forever, they perform at a high level,” Brysgel said. “You would think that everything they do is best-practice, but assumptions are made and standard operating procedures may have been put in place years ago. But it’s not updated... it's not right-sized for the organization or the specific department.” One example of an internal control that failed at Yale Medical School was its \$10,000 threshold for departmental purchases, above which additional approval was required. Petrone generated thousands of purchase orders just under that threshold to avoid scrutiny, according to charging documents.

Companies and nonprofits need to constantly update their internal auditing and be aware that long-term employees may learn to circumvent their systems. A dynamic approach to internal financial monitoring is needed, especially when a company expands, evolves or merges with another entity.

“We do see, in certain industries, a lot of people taking a check-the-box approach to internal controls,” Brysgel said. “The one thing that we advise our clients is that it’s very easy for someone familiar with the system to tailor a scheme that they know is going to go undetected because the monitoring of the internal control structure is not being constantly reevaluated.” In many embezzlement cases, it's often the most trusted veteran employees who succumb to the temptation to steal, in part because they learn how to get around controls, Brysgel said. And executives who are tempted to cut costs by trimming back internal auditing may pay dearly for their frugality later, he added.

“One of the messages here is that, whether it's small businesses or businesses that may seem simple, they need to be proactive and have not only a monitoring in place, but have periodic reevaluation,” Brysgel said. “It can't just be a roll-forward of what they have in place.”

Another lesson of the Yale case is that even in the age of state-of-the-art software and analytics, the human factor is still important in catching embezzlers. After years of siphoning funds from her department, Petrone was caught when an anonymous tipster told Yale officials that her practice of loading electronics into her personal car was suspicious.

“Every good internal control structure should have a prominent hotline, an anonymous tip line for whistleblowers,” Brysgel said. “You would be surprised at how many of these types of schemes are uncovered by a whistleblower or an anonymous tip.”

Even with the criminal case resolved, Yale Medical School's procedures will likely be under increased scrutiny because of its receipt of millions in federal grants a month. In 2019 alone, the Yale School of Medicine was awarded \$451.4 million in grants from the National Institutes of Health, putting it in the top 10 of medical schools nationwide getting federal dollars.

The very division of the medical school hit by the \$40 million fraud, emergency medicine, ranked first in the nation among similar departments in research dollars in 2021, the university announced in February. Grants to the department totaled just over \$18 million in 2021, a significant jump from 2020, according to Yale.

Tradition-bound industries like higher education tend to lag behind other sectors in adopting the software and policies needed for strong internal controls, Brysgel said. “Certain industries get a little more stagnant in their policies and procedures,” he said.

Yale University did not respond to a request for comment on changes in its policies and procedures in the wake of the Petrone case.

But the Yale case should serve as a wake-up call to companies and organizations that think they are immune to internal theft. Yale’s situation is unusual only in the amount of national and international attention the recent case has gotten.

“It's one of these things where you say, ‘Those numbers are astronomical,’” Brysgel said. “But we see it all the time.”