

Fraud Follies in School Districts



Presented by:

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Agenda



- ✓ Some forms of fraud in school districts
- ✓ Indicators of fraud – “Red Flags”
- ✓ What to do for prevention

Introduction

- What is fraud?
- Who is involved?
- How is it found?
- What can we do to prevent it?



Overview



- ➔ Fraud is a crime
- ➔ Laws address different types of fraud
 - Contracts
 - Insurance
 - Others



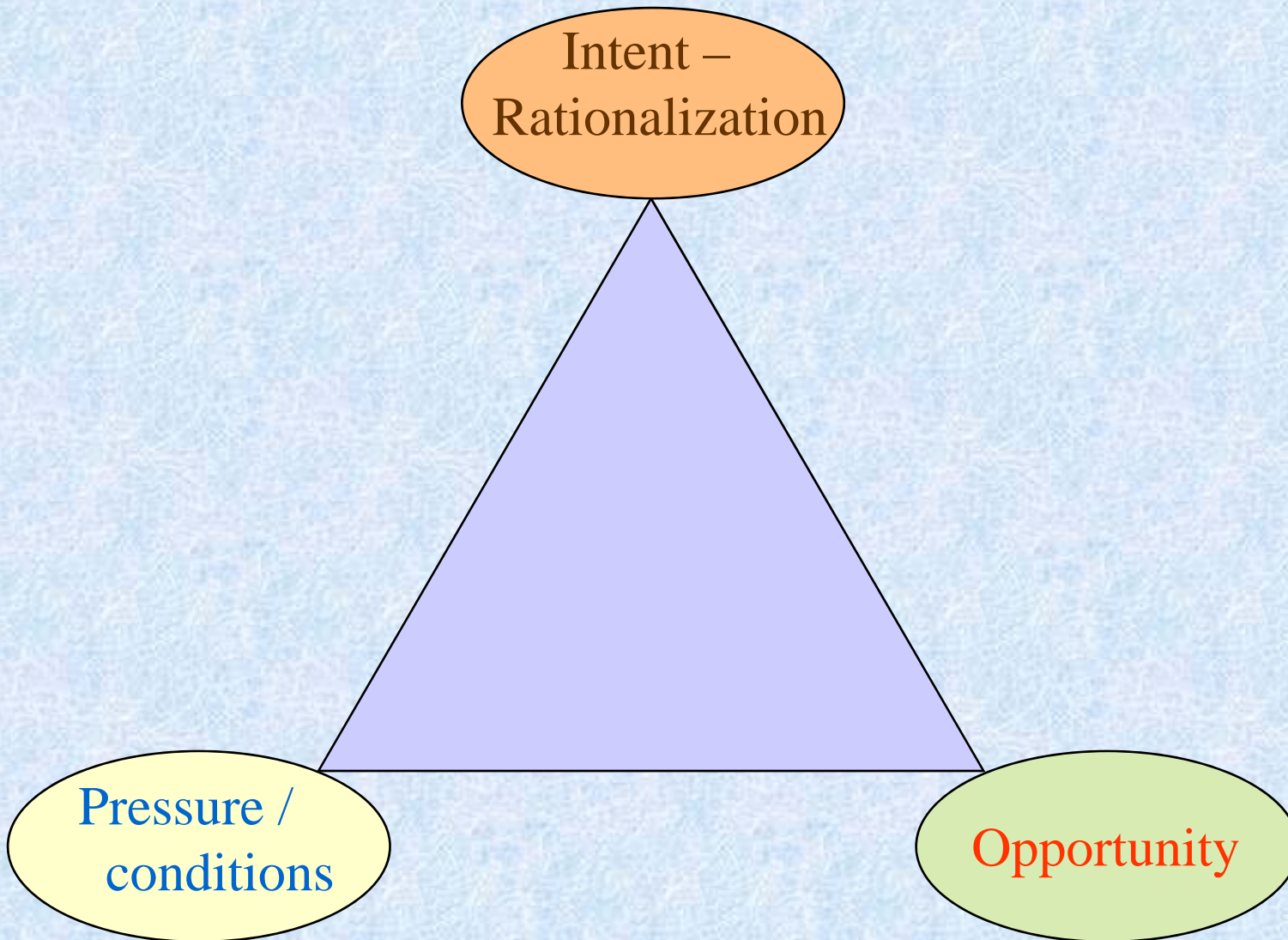
Association of Certified Fraud Examiners

Occupational fraud--

The use of one's occupation for personal enrichment through the deliberate misuse or misapplication of the employing organization's resources or assets *

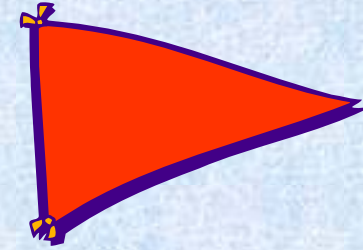
* 2008 Report to the Nation on Occupational Fraud and Abuse. Copyright 2008
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Elements of Fraud



Indicators of Fraud

Some “Red Flags”



-  Borrowing small amounts of \$\$\$
-  Unauthorized IOUs
-  Rewriting records under the “neatness” guise
-  Bragging about exploits
-  Refusing vacations/promotions
-  Living beyond means
-  Getting annoyed at reasonable questioning



Some School District Operations Exposures



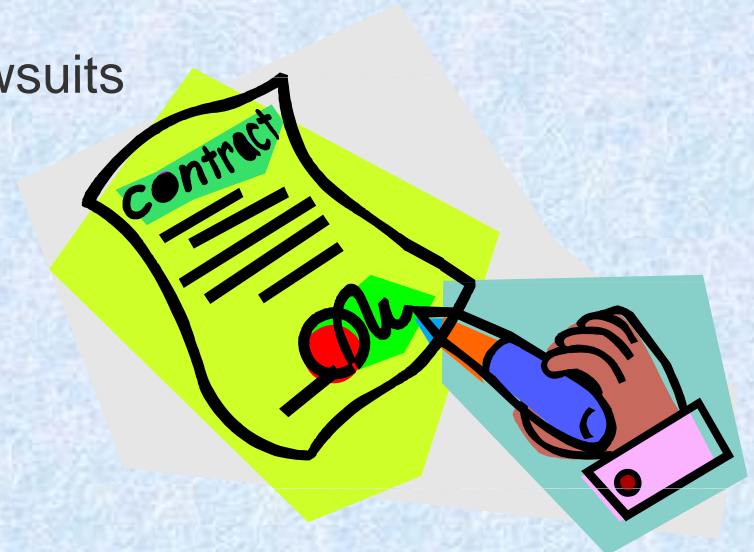
- Contracts
- School Internal Accounts
- Administrative functions



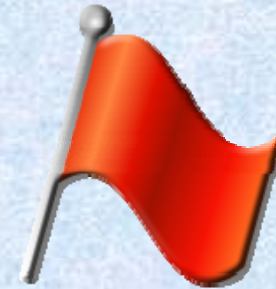
CONTRACTS

Contracts

- Building / Construction
 - School construction
 - Renovation construction
- Services
 - Audit services – external firms
 - Legal services – defense of lawsuits
 - Teaching
 - Testing
 - Custodial
 - Consulting



Contract “Red Flags”



- ❏ Providing the contractor with information/advice on a preferential basis
- ❏ Specifying sole source for a specific contractor
- ❏ Allowing consultants who assisted in the statement of work to bid
- ❏ Splitting costs into separate categories to avoid review or audit
- ❏ Writing contract specifications inconsistent with past similar procurement
- ❏ Numerous Change Orders

Case



- Paving contractor increased contract costs through many change orders; falsified documentation on certain services and double claimed damages against school board and city for idle equipment.



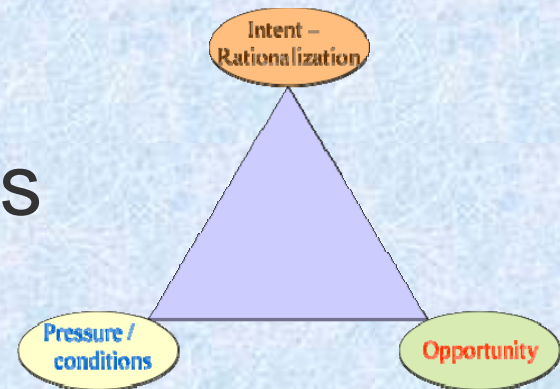
- June 17, 1999 TALLAHASSEE DEMOCRAT

Building Battle Heading to Court

**Both the School Board and The City Want to File
Countersuits Against Mitchell Bros. Construction**

Steps for prevention

- Audit clause in contract
- Careful monitoring of services
- Segregation of duties
- Reject late bids
- Perform cross exams of vendor/employee addresses





SCHOOL INTERNAL ACCOUNTS

What are Internal Accounts?

Internal Accounts are a system of accounts used to track financial transactions for school activities



Comparison of Internal Account Classifications



Gwinnett County Public Schools

Athletics

Student Services

Community Services

General Funds

Student Instruction

Maintenance & Operations

Professional Development

Grants

Media

Flow-Through

Scholarships

May 09



Florida

Leon County Schools

Athletics

Music

Classes

Clubs

Departments

Trust

General

Relationship to Other District Operations

Leadership

- **Discipline**
- **Teaching Techniques**
- **Curriculum**
- **Staff Development**

Management

- **Finance**
- **Purchasing**
- **Payroll**
- **Internal Accounts**
- **Leave**
- **Food Service**
- **Maintenance/facilities**
- **Transportation**

Vulnerabilities

- Untrained personnel
- Lack of school management oversight
- Insufficient funds for program implementation
- Lack of segregation of duties
- Lack of internal controls



Some Forms of Fraud

- 💣 Pilfering Stamps
- 💣 Stealing equipment
- 💣 Manipulation of collections of accounts
- 💣 Unauthorized use of credit cards/funds
- 💣 Failure to make timely bank deposits
- 💣 Alteration/falsification/destruction of documentation

“Red Flags” in Internal Accounts

- ▶ Altered/missing documentation
- ▶ Untimely deposits
- ▶ Diverting receipts
- ▶ Insufficient segregation of duties
- ▶ Non-compliance with established rules and regulations
- ▶ Fictitious vendors

Cases



- School bookkeeper sold candy as a school fundraiser for personal gain
- Over \$6,200 missing from collections at school – cash substituted with checks

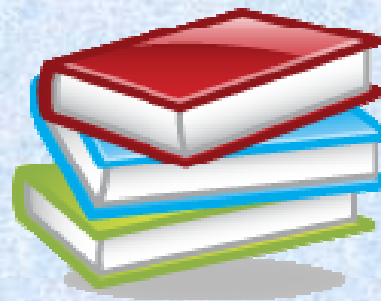


- August 14, 2007 **Gwinnett Daily Post**
Barrow school board says bookkeeper embezzled funds
- September 17, 2007 **Gwinnett Daily Post**
Grand jury finds nothing criminal in GCPS's financial dealings

What to do for Prevention

Provide:

- Training to persons handling funds
- Segregation of duties
- Improved oversight of functions
- Guidance for operations - policies and procedures





ADMINISTRATIVE OPERATIONS



School District Administration/Operations

- Transportation
- Food & Nutrition Services - Cafeterias
- Curriculum – Testing, Grades, Teaching
- Human Resources – Teachers & others & benefits
- Finance – A/P, A/R, Investments, Payroll
- Purchasing/procurement
- Risk Management – insurance
- Maintenance – Custodial and others
- Information & Technology Services
- Nurses – health services
- Psychologists – evaluations
- Specialists – speech therapists, para-pro's, etc.
- Safety and security – school resource officers



Some “Red Flags” in Administrative Functions



- Living beyond means
- Change in behavior – irritation at everyday occurrences
- Sense of “entitlement”
- Overriding rules or controls

Cases



- HR Clerk embezzled over \$17,000 over 4 fiscal years from funds meant to cover costs for fingerprinting personnel and training for substitute teachers – substituted cash with checks
- School cafeteria manager took \$2,500 over 3 months for personal drug habit – altered deposits
- School cafeteria manager took funds for personal use – altered deposits



- September 29, 2007
Constitution



Atlanta Journal-

School Scheme Puts Pair in Prison

Fraud Implications in Administrative functions

- Lack of segregation of duties
- Untrained personnel – unfamiliar with requirements
- Personal issues that created pressures
- Opportunity to exploit system weaknesses – system overrides

Results of Fraudulent Activity

- Self reporting / arrest
- Loss of job
- Mounting debts
- Media coverage
- Legal fees
- Restitution
- Loss of reputation



FRAUD IS COSTLY!



Consider the time:

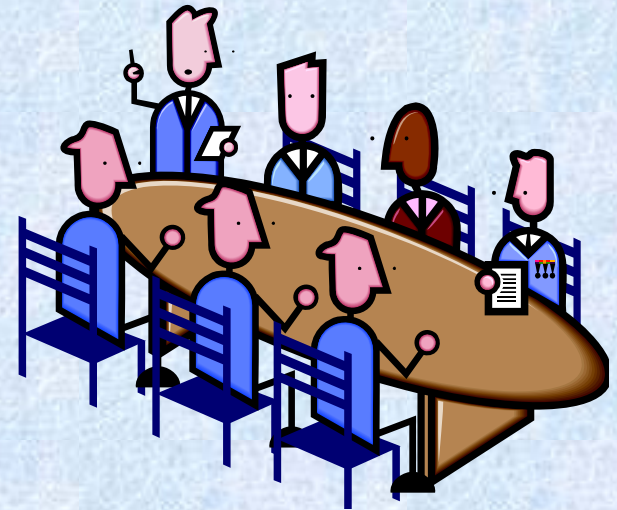
- ◆ Spent devising the fraud scheme
- ◆ Actively concealing information/documents
- ◆ Spent to investigate occurrences
- ◆ Prove case and discharge perpetrators
- ◆ Locate and train replacement personnel



Steps for Prevention

Management sets the tone - Establishes ground rules

- Code of Conduct/Ethics
- Modes of enforcement
- Internal Auditing function
- Fraud policy
- Fraud awareness training
- Establish fraud/ethics hotline



Steps for Prevention (cont'd.)

Conduct a Review of:

- Remote operations
- Internal controls – are they weak/broken?
- Assets not under General Ledger control
- Changes in management
- Segregation of duties



Summary

- ✿ Know the “Red Flags” of fraud - in general and in schools
- ✿ Know the forms of fraud
- ✿ Take charge - put controls in place for prevention



Where to Get More Information

- Other training sessions –ACFE, IIA, MIS Training Institute, USDA, etc.
- The web - acfe.net, theiia.org, auditnet.org, misti.org, fightfraud.org
- Dept. of Education
- Consulting services
- Library
- Other school districts

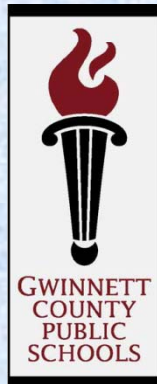


Questions?



Thank You

Please contact me if you need additional information:



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