

FRAUD THAT COUNTS

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SUSAN COTHREN, CFO FOR WEST POINT SCHOOLS

HOLLY ROGERS, CFO FOR COLUMBUS MUNICIPAL



Who is likely to commit fraud and why?

Anyone can
commit
fraud.

The reasons
why are
more
complex.

Factor model for fraud

There are three factors needed to be present for someone to commit an act of fraud.

OPPORTUNITY

PRESSURE

RATIONALISATION



OPPORTUNITY

Lack Of /or Weak Controls

There is no perceived deterrent

Poor controls and poor security

Disruption such as restructuring and reorganization creating lapses in control

PRESSURE

Motivating factors

Financial and lifestyle pressures, including economic situations, debt, addictions, and greed.

Downward pressure from management to meet targets

Pressure from organized crime and collusion with criminals

RATIONALISATION

Justification for action

Revenge for not getting a raise or for not getting perks

A challenge – no harm done

It's not really fraud if everyone is doing it

What are some areas to watch?

PAYROLL

ACCOUNTS
PAYABLE

ACTIVITY
FUNDS

INVENTORY



PAYROLL FRAUD

What could go wrong?



There are many areas where payroll has loop-holes waiting for fraud to occur.

Do you know all your employees? Are you confident your principals and directors know their employees?

What does your district require for bank account information updates?


Does your district require overtime to be approved before time is worked? If yes, what is your recourse for employees that break this rule?

Do your after-school or additional programs require sign-in sheets for staff and students that instruct or attend the program?

Former Chicago Public Schools computer technician was paid nearly \$122,000 over two years when they primarily lived in California.

Just how?

Apparently, a clerk at the school was clocking her in and out each day. Yes, the principal was aware of the situation and did nothing to stop it or report it. They resigned soon after discovery. The school clerk retired around the same time.



There are fraud schemes out there that allow fraudsters to access your email system and send emails to your business department, disguised as district personnel, updating their banking account information.

Do you accept emails or phone calls to update these records?

What's happening in Chicago?

Abnormal payroll spending inspired auditors to take a deeper look at the additional payroll calculations for the Chicago Public Schools.

The report provided by the District's Inspector General gave examples of "buddy punching," where one employee clocks other colleagues in and out of the timeclock as though they worked.

One district employee received nearly \$150,000 over four years in extra pay for working supplemental programs. While clocked in at school, casino records indicate he was visiting their establishment during that time.

A clerk paid herself more than \$15,000 in unauthorized overtime and other extra pay over 13 months by using the principal's password to approve her own time.

In Syracuse, New York, a district employee stumbled across a multi-person fraud scheme.

This employee was asked to bring some timesheets for an after-school program to the central office while she was on her way there for a meeting. She happened to look at the timesheets and knew they were fake. Yes, she reported it to administration, including the HR department and was ignored.

Realizing more people were involved in the cover-up, she reported her suspicions to the state, which began a fraud investigation. Apparently, multiple teachers were allowed to create timesheets for a federally-funded afterschool program that was not worked by any teacher, nor serviced any students.



ACCOUNTS PAYABLE

What could go wrong?



What are some hiccups that can happen in accounts payable?

Does your district follow purchasing law for quotes and bidding? You know that all quotes must be signed by an authorizing vendor representative, right? If not signed, you know the email where the quote was received should be in your documentation as proof of an electronic signature, right?

How often are your employees reimbursed for expenditures instead of direct payment to vendors?

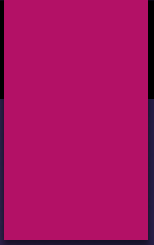
Does your district use credit cards for the purchase of commodities?

Is there any one person responsible for all purchasing at your district?

Ex-Director of Child Nutrition in Long Island plead guilty in a kickback scheme.

This director didn't go alone, she took two vendors down with her, all of which are facing up to 20 years in prison.

The director struck a deal with the two vendors by failing to follow legitimate bidding processes and handed the contracts over to her friends, one of which also hosted her holiday parties. She received more than \$100,000 of proceeds, which she deposited into an account using a family member's name. She used these funds to pay for international vacations, a leased vehicle, home furnishings, and ready cash.



In Austin, Texas, a district leader was in a mid-semester budget meeting when one of her vendor purchases was questioned. Upon further investigation, it was discovered that the school was defrauded out of more than \$100,000 over the course of five years.

She was able to deceive her employer through 24 different reimbursement checks totaling \$107,068.99. How?

She was given a credit card for purchases, but claimed to be a ACSD member, which allowed her to get various discounts from different vendors. In order to use her membership, she'd have to use her personal account and seek reimbursement. She reported multiple fake receipts which were processed for her reimbursement.



In Norristown, Pennsylvania, a principal was charged with theft from the school.

He managed to tie a Venmo account to his school credit card. Transactions included rent to his personal residence, purchases at restaurants, bars, Door Dash, Uber, hotel stays, purchases on Amazon for clothing and housewares.

The principal also charged the card for a non-existent conference in Washington, D.C., and a vacation he took with his brother and a teacher.



HBO's "Bad Education" is based on a real-life fraud situation in Long Island, NY.

After the son of the Assistant Superintendent, who was also the Business Manager, was discovered using the school district's credit card to purchase large quantities of construction material at home improvement stores across Long Island, a school system auditor found that the administrator and her son had charged nearly \$250,000 in personal expenses to the district. The district superintendent argued for the district to keep the whole matter confidential, citing the media frenzy that would make the district unattracted to parents and college admissions officers, and could potentially decrease property values on which the district depended for tax money. The administrator was allowed to resign quietly.

About a year later, an anonymous tipster sent a letter to local newspapers, the district attorney and members of the school board, urging them to investigate the Superintendent's involvement in the embezzlement scheme.

Eventually, it was discovered the Assistant Superintendent had embezzled nearly \$4.3 million, while the Superintendent had gotten away with close to \$2.2 million.

In Philadelphia, Pennsylvania, a school district employee was charged for allegedly “stealing and selling” more than \$95,000 of school property.

The Business Administrator discovered the employee, who was a purchasing agent for the district, was using forged purchase orders to buy items from various vendors.

She would order items and keep them for herself or sell them for a profit. This included a MacBook computer and other electronic equipment she purchased and sold on eBay and custom interior doors.

A decorative graphic at the top of the slide consists of a dark purple rectangular area with a curved bottom edge. A vertical pink bar is positioned on the right side of this purple area.

ACTIVITY FUNDS

What could go wrong?



What are some blindsides in activity funds?

How is cash collected?

Who receipts your cash?

How many signatures are required for Activity Fund Collections?



Duval elementary assistant principal charged with grand theft.

The charges stemmed from a fraudulent bank account activity reported by a company that made regular donations to the school' activity funds. Normally, the donations were handed to the school clerk, but in her absence, the assistant principal accepted the check.

Two unauthorized transactions were later made on that account, prompting the business to notify the police. The unauthorized transactions were insurance premium payments and a rent payment to the assistant principal's residence.

The assistant principal had taken the routing and account numbers from the check issued by the donating company to use for his own expenses.



In Trenton, New Jersey, a former top administrator pled guilty for conspiring to steal more than \$14,000 from students and teachers by tricking them into payment for field trips that were paid for by the school district.

She also pled guilty to a charge of third-degree attempted theft by deception for attempting to bill the board of education \$25,000 for School Leadership Council meetings that never took place. The state is recommending a sentence of 3 to 5 years in state prison.



Former Business Manager from Baltimore City Schools was charged with theft of school funds.

The charge alleges that she stole approximately \$9,999.99 from the Vocational High School by depositing monies made payable to the school into her personal bank account.



INVENTORY

What could go wrong?

In Palm Beach County, a principal was arrested for fraud related to school property, some of which was found at the district administrator's personal business, which was a local funeral home.

The items included black leather sofas and chairs.

The principal of another school in the district is also being charged as working together to defraud the district. He also falsified a reimbursement form for a tutorial program that never took place and faces a sentence up to 26 years if convicted on all charges.



The State's Attorney for Cook County, Illinois has charged a former public-school worker with stealing 11,000 cases of chicken wings and other food items worth \$1.5 million in an alleged embezzlement scheme that took place over a span of two years.

The former director of food services could serve up to 30 years in prison for her offenses. She would place food orders with the district's supplier and then pick up the items using the district vehicle; the food was never brought to the school or provided to the students. The district would be invoiced for the charges and subsequently pay the invoices.

The fraud was discovered by the Business Manager while doing a routine budget check and realized food costs were \$300,000 more at that time of year than normal. Deciding to check the invoices, he discovered individual invoices allegedly signed by the director for "massive quantity of chicken wings." According to the district, "chicken wings are never served to students because they contain bones."

OTHER TYPES OF FRAUD

What else could go wrong?



Two former Alabama public school superintendents, among six, were charged with fraud related to virtual education.

The charges allege that the defendants conspired to fraudulently enroll students in public virtual schools and then falsely report those students to the Department of Education. As a result, the districts received payments as if the students actually attended the public schools.

The various defendants then received, for their own personal use, portions of the state money. They skimmed the money through direct cash payments and payments to third-party contractors owned by the various co-conspirators.

The student identities used were obtained from various private schools located across the state. They offered the private schools various inducements, including computers, direct payments, and access to online curriculum.



Again in Long Island?

A private school administrator was charged with stealing \$8.4 million from the school.

Between March 2014 and April 2022, the administrator allegedly used the school's PayPal account to transfer school funds into his own personal PayPal account. He then allegedly covered this transaction by transferring the school's funds into multiple bank accounts to hide the payment.

He allegedly bought 4 luxury vehicles, including a 1965 Mustang, a 2021 Lincoln Navigator, and a Mercedes Benz, which were registered to his wife and daughter.

The allegedly stolen funds were also used to purchase 5 houses, which were put in names of different shell corporations to help shield the owner from being identified. He paid his daughter's college tuition, purchased high-end clothing and jewelry, limousine trips, and \$1 million in cash withdrawals.

He faces up to 25 years in prison.



How about this?

Los Angeles County District Attorney announced that a principal has been charged with pocketing tens of thousands of dollars while he worked as a principal at two school locations over the past four years.

In 2017, while employed as the principal of a high school, he was accused of negotiating a contract with a company for private use of the school's parking lot. He did not receive authorization and profited about \$57,000 from the deal.

Two years later, while working as a principal of a middle school, he was accused of collecting about \$10,000 for a student field trip to China and never paying the company that he hired to organize the trip.

A dark purple banner with a white question and a pink tab. The banner has a wavy bottom edge and a small pink tab on the right side.

WHAT STEPS CAN WE TAKE?

Internal Controls

A manual or automated process designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance.



Preventative Controls – stops something bad from happening before it occurs



Detective Controls – identify something bad after it occurred

Segregation of Duties

No single individual should have control over two or more phases of a transaction or operation.



No one individual employee can complete a significant business transaction in its entirety.



No one employee should be in a position to commit fraud and then conceal it.

Segregation of Duties - Example

- One person receives cash payments; another person recounts it and takes the deposit to the bank.
- One person enters cash receipts in the software system, a different person performs bank reconciliation.
- One person purchases equipment, a different person performs the physical inventory.
- One person prepares the payroll direct deposit file, a different person reviews and authorizes it.

Segregation of Duties - Example

- One person completes a purchase requisition, a different person(s) approves the purchase.
- One person approves a purchase order, another person issues checks to vendors.
- One person issues checks to vendors, another person maintains/creates vendors in the accounting software.



Other Key Controls

- Tone at the top
- No management overrides
- Take swift and immediate action if fraud occurs
- Fraud training
- Limit system access

PAYROLL

- Person preparing the payroll cannot also have access to add and/or activate employees
- Analytical review of payroll
- Watch for bank account changes
- Procedure for changing pay rate
- Approval process for additional pay

Cash Disbursements

- Require purchase orders
- Dual signatures
- Invoice review
- Bank statement review

ACCOUNTS PAYABLE - Vendors

- The accounts payable clerk cannot also create and/or edit vendor records
- Require a W-9, phone number, method of proving company existence, such as a google search
- Search for matching phone number and addresses in your software

ACCOUNTS PAYABLE - Travel

- Specific written travel policy and/or procedure
- Require itemized receipts
- Watch payee name
- Double-dipping

ACCOUNTS PAYABLE – Other Controls

- Never pre-sign
- No signature stamps
- Control the check stock
- Void check procedure
- Credit card procedure
- Rounded invoice amounts
- Amounts just below the thresholds of purchasing law requirements
- Payees are acronyms

Cash Receipts

- Receipts must be written immediately
- Bookkeeper should not open mail
- Watch for check-cash swaps
- Bank statement review
- Reduce cash when possible

Fundraisers

- Approval process
- Profit-Loss Statement
- Cash receipt controls

Inventory Management

- Fixed Asset acquisition reconciliation to the financial statements
- Fixed Asset periodic internal inventory audits
- Fixed Asset disposal method policy and/or procedure
- Child Nutrition ending inventory are reasonable items and quantities

Report suspicious activity to your supervisor or the Human Resources Director!

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