



Current Issues in Internal Controls and Fraud in K-12 Schools

Agenda

Identify Internal Control Issues

Identify What Internal Controls Are

Identify What Fraud Is

Identify Common Fraud Schemes

Fraud Prevention and Detection Considerations

Discuss Fraud Cases

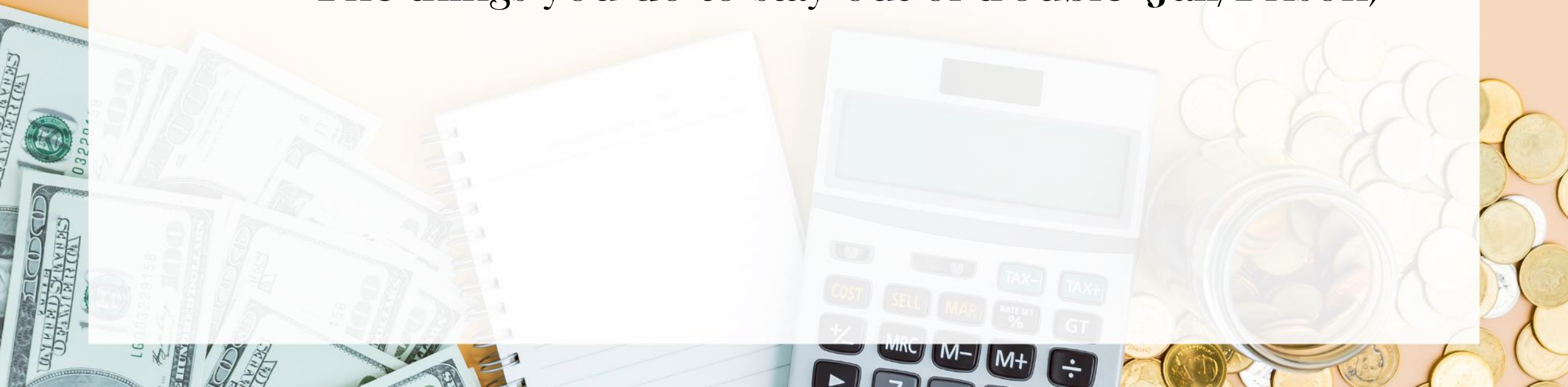
Internal Controls - Current Issues

Current Issues Affecting Internal Control

- Lack of Appropriately Skilled Staff
- Compromising Technology
- Lack of Executive Emphasis

Internal Controls (Roughly)

The things you do to stay out of trouble (~~Jail~~/Prison)



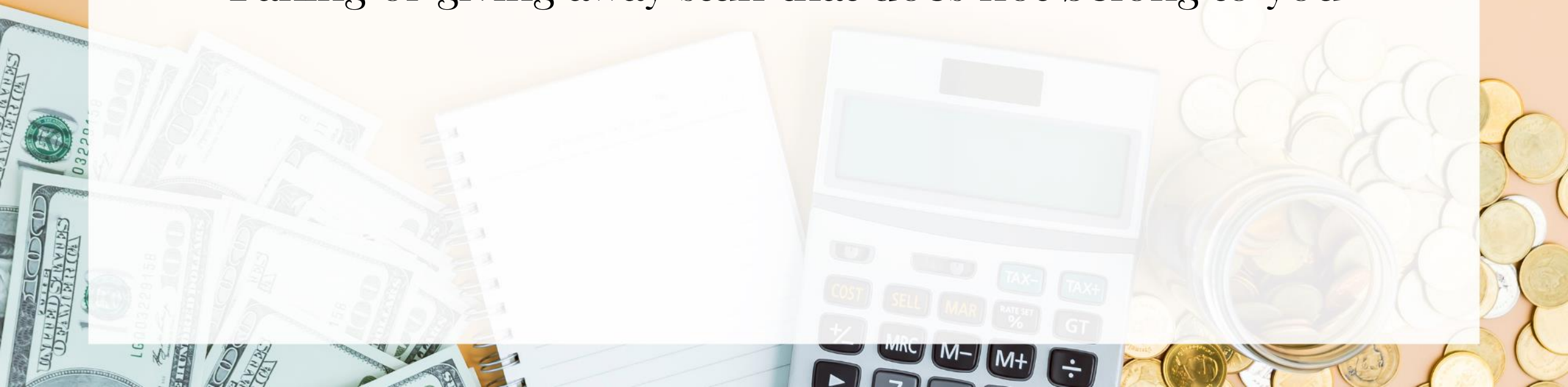
Internal Controls (Better Put)

The things done within an organization to:

- Protect assets
- Achieve goals
- Comply with the law

Fraud (Roughly)

Taking or giving away stuff that does not belong to you



Fraud (Better Put)

Activities aimed at:

- Misappropriating funds
- Manipulating financial records
- Engaging in deceptive practices for personal gain

Case Study 2

Interim CSFO, an Assistant Principal

Description: Submitted fraudulent invoices from nearly a dozen fictitious companies that supposedly provided various school district entities with books, professional development, other goods, and other services. The Assistant Principal created fraudulent invoices with the Interim CSFO's help. The Interim CSFO used her position to ensure the invoices were paid without attracting attention.

Common Types of Fraud

- Embezzlement -

Misappropriation of funds by individuals entrusted with managing school finances. Embezzlement may occur through schemes such as diverting funds into personal accounts, creating fictitious vendors or employees, or falsifying reimbursement claims.

Common Types of Fraud (Continued)

- Procurement Fraud -

Involves fraudulent practices in the procurement process, such as bid rigging, kickbacks, or accepting bribes from vendors in exchange for awarding contracts. School officials may manipulate procurement procedures to benefit certain vendors or to inflate contract prices.

Common Types of Fraud (Continued)

- Expense Reimbursement Fraud -

Employees or administrators may submit false or inflated expense claims for reimbursement, including expenses for travel, supplies, or professional development activities. This may involve submitting receipts for non-existent expenses or inflating the costs of legitimate expenses.

Common Types of Fraud (Continued)

- Theft of Cash or Assets -

Individuals may steal cash, equipment, supplies, or other assets belonging to the school for personal use or resale.

This may involve theft from cash collections, change cash, or school inventory.

Common Types of Fraud (Continued)

- Accounts Payable Fraud -

Manipulating accounts payable processes to make unauthorized payments to employees. Accounts payable fraud may include ghost vendors, creating false invoices, initiating purchase orders and payments for personal use, or processing duplicate payments.

Common Types of Fraud (Continued)

- Payroll Fraud -

Manipulating payroll processes to make unauthorized payments to employees or to inflate employee salaries or benefits. Payroll fraud may include ghost employees, unauthorized overtime, or falsifying time records

Common Types of Fraud (Continued)

- Grant Fraud -

Schools may receive grants or funding from government agencies, foundations, or other organizations for specific purposes. Grant fraud involves misusing grant funds for unauthorized purposes or falsifying documentation to obtain grant funds.

Common Types of Fraud (Continued)

- Conflicts of Interest -

School officials or employees may engage in conflicts of interest by using their positions for personal gain or to benefit related parties. This may involve awarding contracts to companies owned by family members or accepting gifts or favors from vendors.

Common Types of Fraud (Continued)

- Falsification of Financial Records -

Individuals may alter financial records, such as budgets, ledgers, or financial statements, to conceal fraudulent activities or misrepresent the financial position of the school. Falsifying records may involve overstating revenues, understating expenses, or concealing unauthorized transactions.

Case Study 3

2 Superintendents, a Teacher, a Coach

Description: Fraudulently enrolled student from private schools in online virtual public schools to bolster state funding for public school systems and then falsely report those students to the ALSDE. As a result, districts receive payments from Alabama's Education Trust Fund. The various defendants then received, for their own personal use, portions of the money. The defendants skimmed the state money through direct cash payments and payments to third-party contractors owned by the various co-conspirators.

Fraud Detection and Prevention Considerations

- Foster a Culture of Integrity and Ethical Behavior
- Promote Transparency and Accountability
- Implement Strong Internal Controls
- Code of Conduct and Ethics Policies
- Clear Policies and Procedures Documentation
- Training and Awareness Programs

Fraud Detection and Prevention Considerations (Continued)

- Conduct Regular Reviews
- Conduct Unannounced Reviews
- Perform Reconciliation
- Authorization and Approval Procedures
- Physical Controls over Assets

Fraud Detection and Prevention Considerations (Continued)

- Perform Data Analytics
- Continuous Monitoring and Evaluation
- Reporting Mechanisms for Suspicious Activities

Fraud Impact on K-12 Schools

- Disrupts School's Financial Stability
- Diminishes Resources Available for Students
- Damages School's & Community's Reputation
- Individuals May Face Legal Action / Criminal Charges

Alabama Attorney General Quotes

- “Betraying the public’s trust is never acceptable and will not be tolerated in our state.”
- “Public employees working in schools must be honest when handling public money. Her conviction should send a clear message that abuses like hers will not be tolerated.”

Case Study 1

Bookkeeper

Description: Collected money from teachers and parents for certain school events and pocketed that money for her benefit. She further admitted to concealing her thefts by using a fake receipt book.

Amount: \$26K

Time: 4 Years

Case Study 2 (Continued)

Interim CSFO, an Assistant Principal

Amount: \$291K, \$314K

Time: 5 Years, 5 Years

Case Study 3 (Continued)

2 Superintendents, a Teacher, a Coach

Amount: \$2.9M, \$1.3M, \$275K, and \$30K

Time: 5 Years, 2 Years, 2 Years, and 1.5 Years



Thank You!
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