

Protect Your Assets & Prevent Fraud

SASBO 2021

Session Leader

Susan Barkley, CPA, CSFM

Chief Financial Officer

Finance, Facilities, and Food Service

Shelby County Public Schools, Kentucky

susan.barkley@shelby.kyschools.us

Everyone might steal.

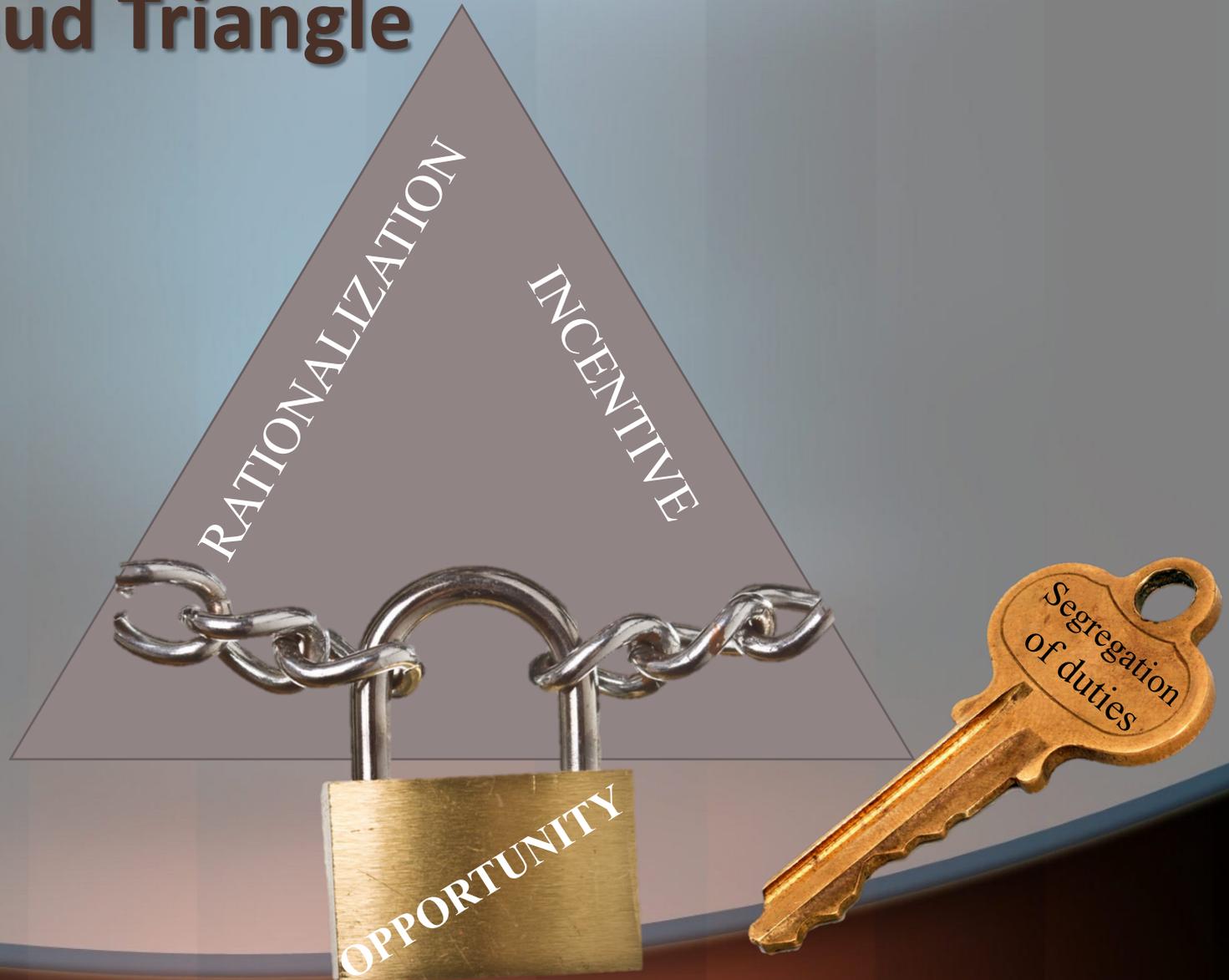
Good people make bad decisions in tough circumstances.

Even a Buddhist Monk Will Steal

- Stole \$263K from his Temple in Louisiana
- He was the presiding monk from 2010 – 2014
- Had access to 3 accounts from which he withdrew funds, sometimes returning funds
- Gambling problem
- Sentenced to 30 months in prison



The Fraud Triangle



We control the
opportunities through
internal controls

Internal Control Defined

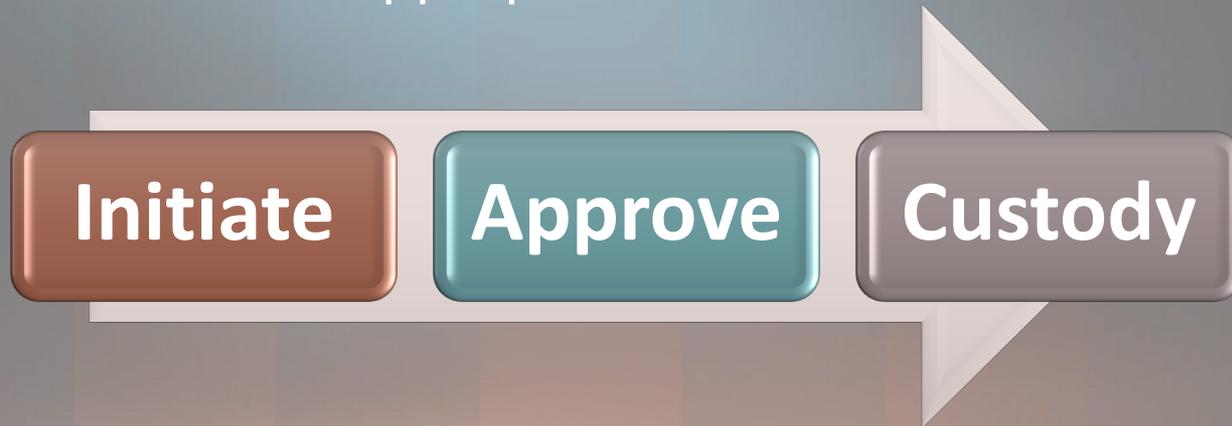
Internal control is a manual or automated process designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance

- Preventive controls – stop something bad from happening before it occurs
- Detective Controls – identify something bad after it has occurred
- These measures reduce both fraud and honest mistakes

**TRUST IS NOT
AN INTERNAL
CONTROL**

How to Prevent Fraud and Errors

- The most powerful tool in your toolbox is **Segregation of duties**
- Failure = SIGNIFICANT FRAUD RISK
- Duties are segregated among different people to reduce the risk of error or inappropriate action



Annual Audit - Purpose

- Required by KDE annually
- Purpose is to opine on the accuracy of the financial statements within material limits
- If >\$750,000 in Federal expenditures, also required by Federal government
 - Test compliance with Federal program requirements

The annual audit is not intended to
uncover fraud

“audit firms are not forensic auditors and may not determine if someone trained to follow procedures is only making it appear that processes have been followed”

– KY school superintendent

Annual Audit - Benefits

- Findings/management comments are not always a bad thing
- Increase management's awareness
- Opportunities for improvement
- Heads up warning for potential fraud

Identifying Risk Areas

- CASH
- Are there incentives or pressures to steal?
- Are management overrides allowed or possible?
- Are there any red flags?
- Where do opportunities exist?
- Long-term, experienced staff

Payroll Fraud - What

- Payroll manager stole \$600,000 over 7 years
- Payroll manager moved a retired substitute teacher employee record from inactive to active each pay period
- Changed the bank account number to her own
- Got caught while on a cruise- the bank called with a question about the account number

Payroll Fraud - How

Payroll manager had complete control of the entire process

- Add/change employees
- Change bank information
- Prepare payroll
- Prepare reports for review
- Ability to void/purge
- Transmit and authorize direct deposit file
- Contact person for banking questions

Payroll Fraud – The Fix

SEGREGATION OF DUTIES

- A different person activates/initiates employee records
- A different person authorizes direct deposit file
- A different person is the contact for the bank

Payroll Fraud – The Outcome

- Sentenced to 18 years, served 6 months
- 5 years probation

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 into Munis, a different person performs the 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-Examples

- 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 to checks to vendors, another person maintains/creates vendors in Munis

Accounts Payable Fraud - What

- Finance officer steals \$1.6 million over 8 years
- A bank employee questioned a suspicious deposit

Accounts Payable Fraud – How

- Created fictitious invoices to legitimate vendors, including construction vendors
- Checks were altered to change the payee name to her own
- Munis would show a legitimate vendor as the payee

Accounts Payable Fraud – The Fix

- Purchase orders must be required (for almost everything!)
- Do not share user IDs and passwords
- Printed checks stay in the safe until mailed
- Bank reconciliation process with an independent reviewer

Accounts Payable Fraud – The Outcome

- Sentenced to 5 years (Federal court)
- Must serve 85%
- 3 years probation after release

Practical/Key Considerations

- Tone at the top
- No management overrides
- Bank Reconciliations – independent of those receiving cash/checks and issuing checks; also reviewed by another individual
- Pre-approval of purchasing through purchase orders
- Periodic job/task rotation
- Munis access determined by job duties
- Fraud training
- Invite tips, even anonymous ones
- Take action if fraud is discovered

Common Types of Fraud

- Theft of Receipts (transaction not recorded)
- Theft of Assets – supplies, computers
- Unauthorized Transactions – proper approvals not obtained for purchases
- Forgery – forge signatures; fictitious invoices
- Collusion – with another employee or vendor
- Phony employees, phony vendors
- Credit card misuse

Management Fraud - What

- Superintendent steals \$500,000 over 15 years
- Unauthorized benefit and leave payments
- Unauthorized, extravagant travel expenses
- District gas card used for personal vehicle

Management Fraud - How

- Double dipping on travel reimbursements
- Intimidation

Management Fraud – The Fix

- All payroll payments made to the superintendent are also provided to the board for review
- Every travel reimbursement must be approved by a higher level, even the superintendent
- Establish an employee “tip line”
- Use gas cards only for district vehicles, all others claim reimbursement
- Require original itemized receipts

Management Fraud – The Outcome

- Sentenced to 2 years (Federal court)
- Must serve 85%
- 3 years probation after release

Final Thoughts

- Recognize fraud can happen in your schools or district
- **Create segregation of duties and dual controls**
- Review all statements and invoices
- Reduce the amount of cash on hand
- Don't throw away protocol because of friendships or trust

TRUST IS NOT AN INTERNAL CONTROL

Questions & Your Stories

