

Fraud Prevention Strategies

SASBO 2022

Session Leader

Susan Barkley, CPA, CSFM

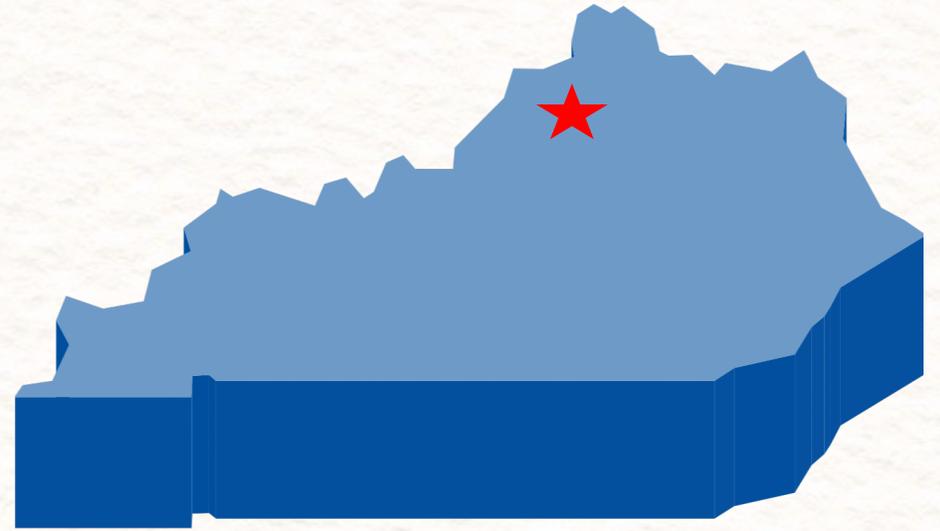
Chief Financial Officer

Finance, Facilities, and Food Service

Shelby County Public Schools, Kentucky

susan.barkley@shelby.kyschools.us

- Approximately 7000 students
- About 1000 contracted employees
- 12 schools



Key Findings

From the 2020 Report to the Nations

Association of Certified Fraud Examiners



Rationalization
Personal justification of
dishonest actions

Incentive
Financial or emotional force
pushing toward fraud

FRAUD

Opportunity
Ability to execute plan without
expectation of being caught

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

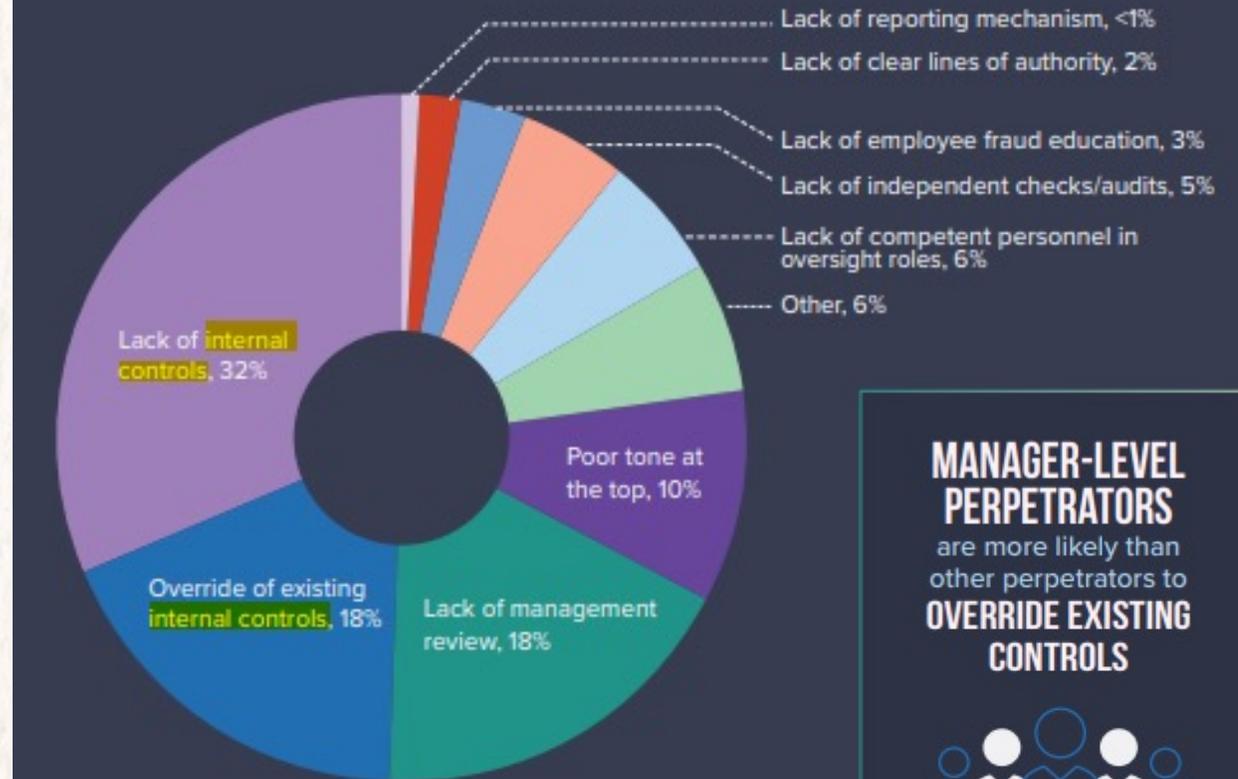
- Preventive controls – stop something bad from happening before it occurs
- Detective Controls – identify something bad after it has occurred

Internal Control Weaknesses Contribute to Fraud

From the 2020 Report to the Nations

Association of Certified Fraud Examiners

What are the primary internal control weaknesses that contribute to occupational fraud?



MANAGER-LEVEL PERPETRATORS are more likely than other perpetrators to **OVERRIDE EXISTING CONTROLS**



Employees	15%
Managers	22%
Owner/executives	17%

Identifying Risk Areas

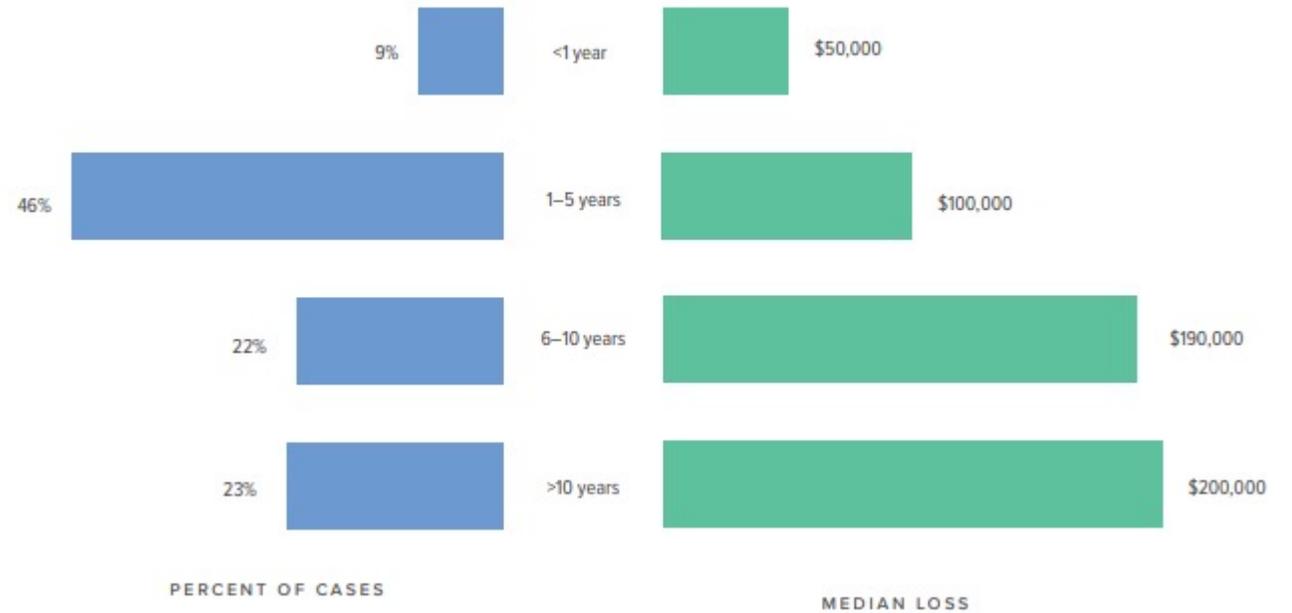
- Are there incentives or pressures to steal?
- Where are internal controls weak?
- Are management overrides allowed or possible?
- Are there any red flags?
- Where do opportunities exist?
- Long-term, experienced staff
- Lack of segregation of duties

Tenure

From the 2020 Report
to the Nations

Association of Certified Fraud
Examiners

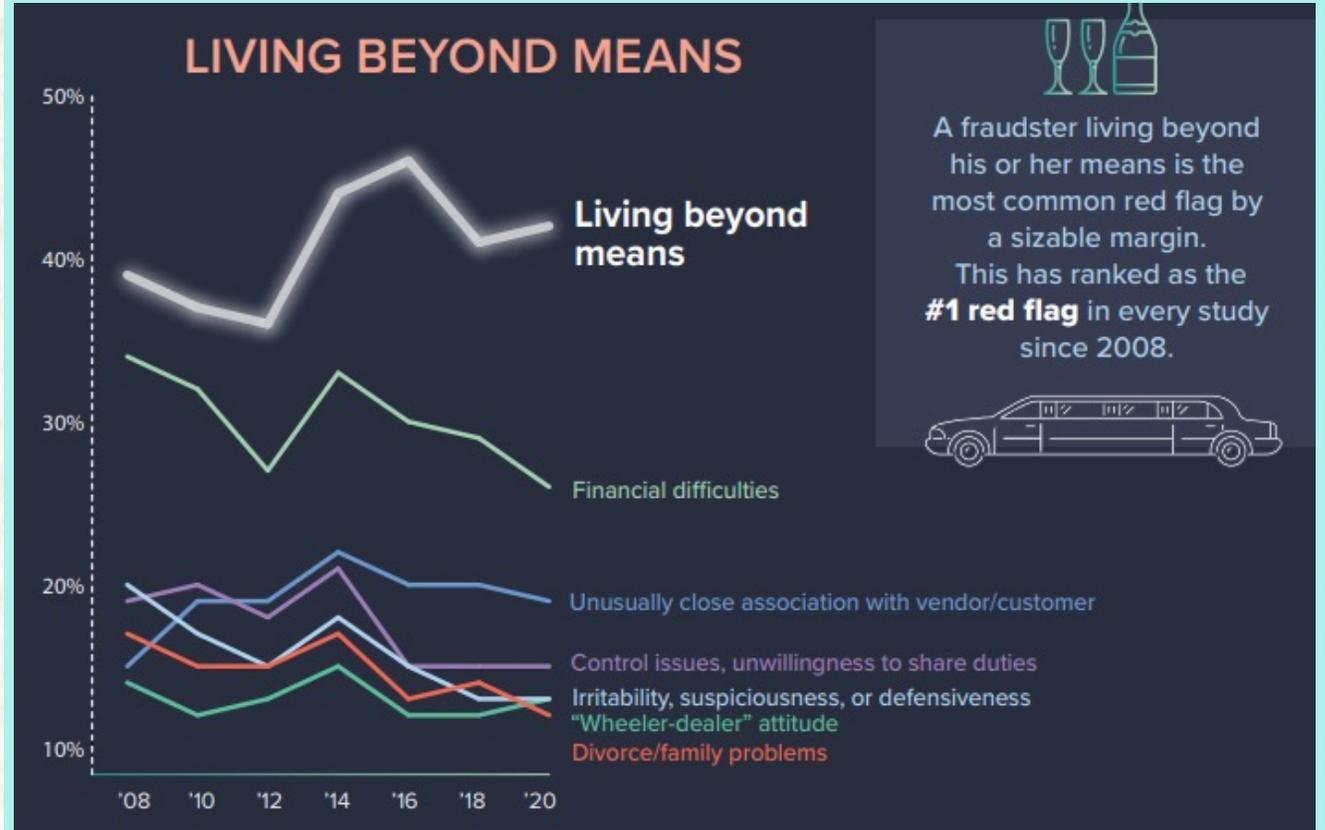
FIG. 29 How does the perpetrator's tenure relate to occupational fraud?



Red Flags

From the 2020 Report
to the Nations

Association of Certified Fraud
Examiners



Segregation of Duties - Defined

- 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



Other Key Controls

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

How is Fraud Detected?

From the 2020 Report
to the Nations

Association of Certified Fraud
Examiners

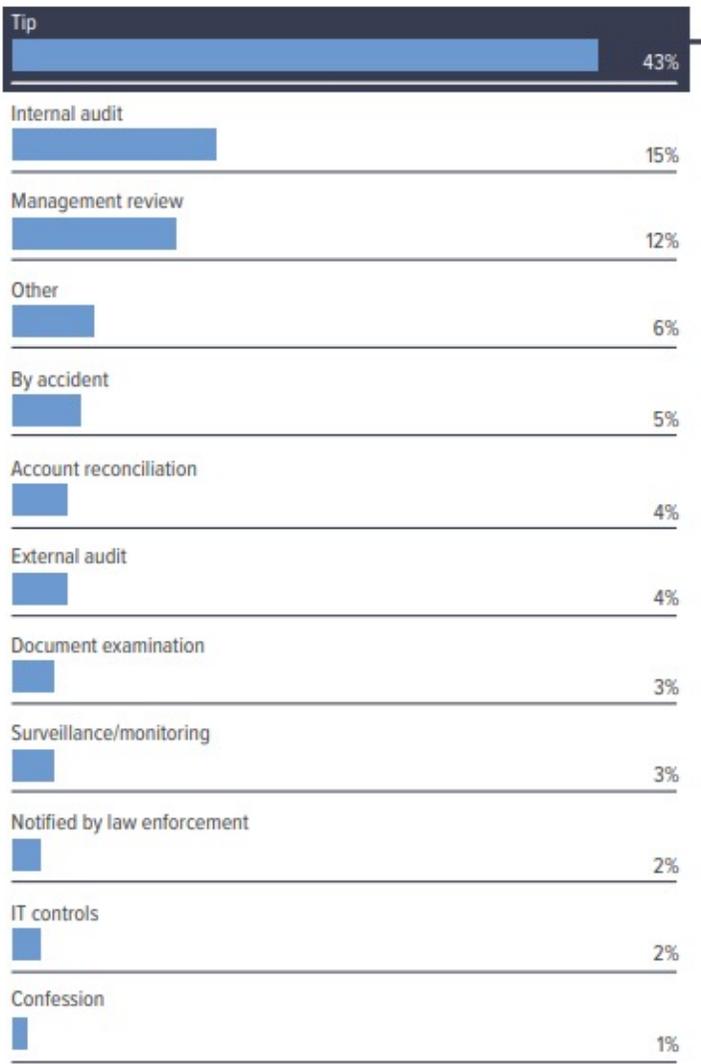


How is Fraud Detected?

From the 2020 Report
to the Nations

Association of Certified Fraud
Examiners

FIG. 9 How is occupational fraud initially detected?

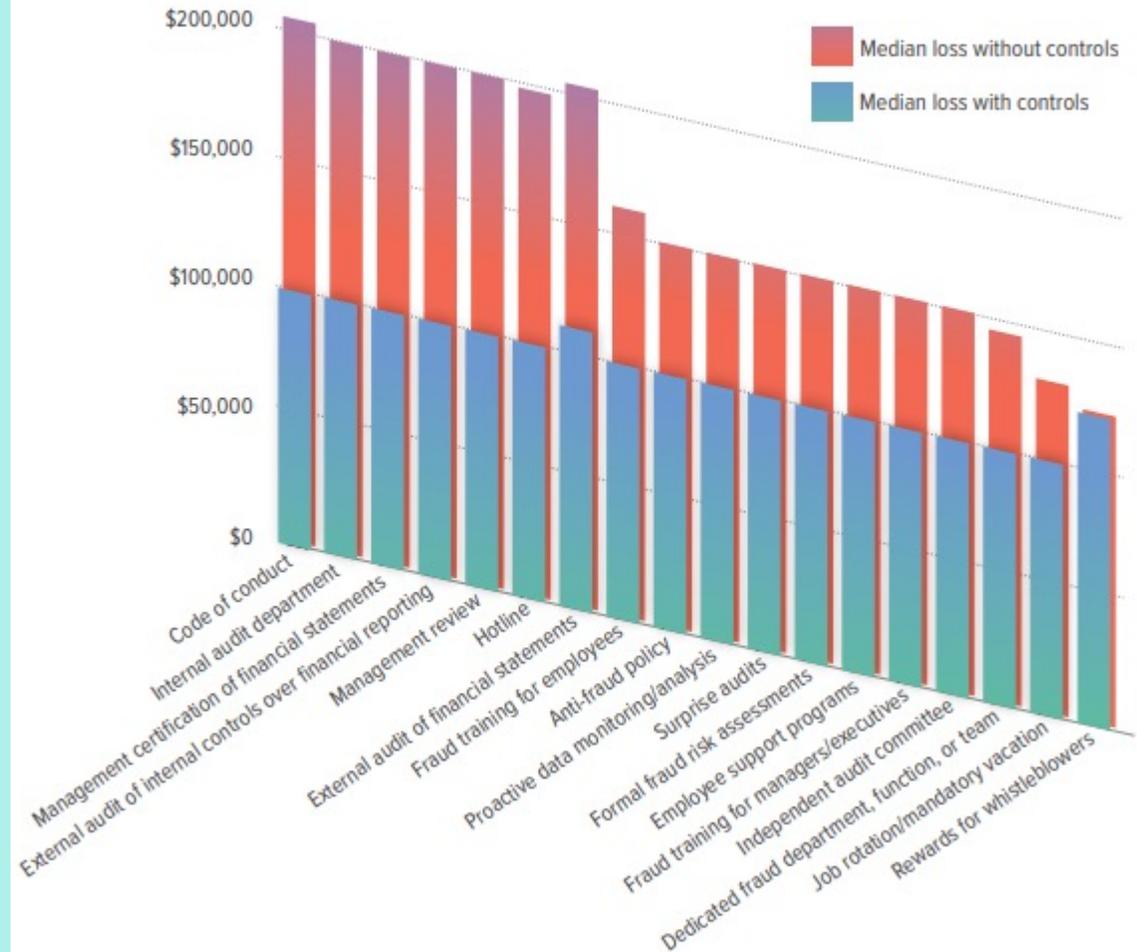


Anti-Fraud Controls

From the 2020 Report
to the Nations

Association of Certified Fraud
Examiners

FIG. 22 How does the presence of anti-fraud controls relate to median loss?



Cash Receipts

- Receipts must be written immediately
- Receipter should not open mail; segregation of duties
- Watch for check-cash swaps
- Bank statement review
- Reduce cash when possible

Fundraisers and Ticket Sales

- Approval process
- Profit-Loss statement
- Cash receipts controls
- Involve multiple people;
segregation of duties

Payroll

- Person preparing the payroll should not also have access to add/activate employees; segregation of duties
- Analytical review of payroll
- Watch for bank account changes
- Procedure for changing pay rate
- Approval process for extra pay

Prevent Phony Vendors

- The accounts payable clerk cannot also create/edit vendor records; segregation of duties
- Require W-9, phone number, google some
- Search for matching addresses

Other Accounts Payable Controls

- Never pre-sign
- No signature stamps
- Control the check stock
- Void check procedure
- Credit card procedures
- Rounded invoice amounts
- Amounts just below thresholds
- Payees are acronyms
- Remit address/account changes

Accounts Payable Fraud - What

- Attempt to redirect funds from a legitimate vendor to a fraudster's account
- Email is sent to the district asking for a change in remit instructions for an existing vendor
- Legitimate invoices from the vendor are paid according to the new ACH instructions

From: [REDACTED]@tienrey.com>
Sent: Thursday, October 28, 2021 8:59 AM
To: Payable, Accounts <accountspayable@shelby.kyschools.us>
Cc: Mai <mmoua@tienrey.com>
Subject: URGENT NOTICE: TIERNEY LETTER

CAUTION: This email originated from outside of the Shelby County Public Schools domain. Do not click links or open attachments unless you recognize the sender and know the content is safe.

Good morning,

Please find in the attached a letter from our finance department. Kindly confirm that you have read and understood this notice with a return mail.

Thank you.

[REDACTED] | **Tierney | Collections Specialist**
1771 Energy Park Drive, Suite 100, St. Paul, MN 55108
P: 612-455-3698 | F: 612-331-3424
[Website](#) | [Facebook](#) | [Twitter](#) | [LinkedIn](#)
Includer | Positivity | Arranger | Responsibility | Achiever



Our payment remittance address has changed. Please update your records as follows: PO Box 64766 St. Paul, MN 55164-0766
(612) 331-5500 | (800) 933-7337 | Fax (612) 331-3424
www.tierney.com

Date: 10/27/2021

URGENT NOTICE

An urgent notice just came from our finance department informing us that a **NO DEPOSIT LINE** has been placed on our bank account due to some uncleared government tax issues.

The bank has placed our bank account on review which means that we are unable to send or receive any form of payment pending the period of review.

An internal compliance meeting is being held regarding this matter. Therefore, kindly hold on to payment until I revert to you with further development.

Thank you.

██████████
Tierney
Collections Specialist
██████████@tierney.com

1771 Energy Park Drive, Suite 100, St. Paul, MN 55108.
Includer | Positivity | Arranger | Responsibility | Achiever

From: [REDACTED]@tienrey.com>
Sent: Wednesday, November 3, 2021 12:30 PM
To: Payable, Accounts <accountspayable@shelby.kyschools.us>
Cc: Mai <mmoua@tienrey.com>
Subject: Re: URGENT NOTICE: TIERNEY LETTER

CAUTION: This email originated from outside of the Shelby County Public Schools domain. Do not click links or open attachments unless you recognize the sender and know the content is safe.

Good afternoon,

This is a follow up on the mail sent to you last week, we are yet to receive a feedback on the TIERNEY notice letter that was sent.

After an internal compliance meeting regarding the situation, please be advised that we will now be receiving payment with our company routing details via ACH. 

Kindly acknowledge receipt of this email with a return mail so we can forward you our ACH details for payment processing on due invoice. 

Appreciate your prompt response.

Thank you.

[REDACTED] Tierney | Collections Specialist



Mon 11/22/2021 8:48 AM

Payable, Accounts

Re: KDE District Financial News

To  Barkley, Susan

 You forwarded this message on 11/22/2021 9:02 AM.
If there are problems with how this message is displayed, click here to view it in a web browser.

[Bing Maps](#)

Good morning,

I was able to get on a conference call with three representatives from the TIERNEY finance team. I can confirm that the ACH payment instructions are legitimate as they have been verbally verified.

 The linked image cannot be displayed. The file may have been moved, renamed, or deleted. Verify that the link points to the correct file and location.

Laura Morgan

Accounts Payable

Shelby County Public Schools

1155 W. Main Street

Shelbyville, Kentucky 40065

O: (502) 633-2375 ext. 10255 Fax 502-647-0246

[Facebook](#) • [Instagram](#) • [Twitter](#) • [Website](#)

From: Barkley, Susan <susan.barkley@shelby.kyschools.us>

Sent: Friday, November 19, 2021 3:08 PM

To: Payable, Accounts <accountspayable@shelby.kyschools.us>

Accounts Payable Fraud - Prevention

- Confirm changes of remit instructions with your contact at the vendor
- Be very skeptical of email communication
- Requests received through USPS mail can also be fraudulent

Final Thoughts

- Recognize fraud can happen in your schools or district
- **Create segregation of duties and dual controls**
- Don't throw away protocol because of friendships or trust

**TRUST IS NOT AN
INTERNAL CONTROL**



**THIS WAS
FUN!**

**BEST
SESSION
EVER!**

**WOOT
WOOT**