

**Now Is No Time to Breach
Your Ethics**

Michigan School Business Officials
Business Manager/CPA Workshop
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**Now Is No Time to Breach
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- Introductions
- General Perspective – Rules to Live By
- Board of Education Member Perspective
- Business Manager Perspective



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- WE DON'T WANT THIS IN
THE PAPER

Headlines

Ex-principal's bond cut
school chief charged
HE FACES COUNTS OF FABRICATING RECEIPTS, EMBEZZLING LESS THAN \$20,000
Ex-PTO treasurer admits embezzlement

Former principal negotiates plea deal
Alleged embezzler pleads guilty

Attorney defends school's actions
School principal's resignation part of plea deal

Embezzlement case stalls for lack of lawyer
School principal's resignation part of plea deal

School chief departure 'best for both sides'
AGREEMENT COMES AFTER RESIDENTS CALL FOR HIS REMOVAL

Officials hope trial heals wounds of East Detroit bribery case
Prosecutors seek repayment from embezzler

Principal took donations, lost them in scam, cops say

Now Is No Time to Breach Your Ethics

- Fraud Facts – What is the data about fraud?
 - The Association of Certified Fraud Examiners estimated in 2010 that over \$2.9 trillion is lost world-wide each year to fraud by industry and government.
 - Of the 1,843 fraud cases examined by the ACFE, municipal and school district frauds comprised 16% of the total, with a median loss of \$100,000.
 - Less than 8% of fraud perpetrators have prior convictions.
 - Organizations with less than 1,000 employees made up 53% of the fraud cases.

Individual Motivations for Fraud

- Individual motivations
 - Gambling, extramarital activity, alcohol/drugs
 - Unexpected expenses or illness
 - **Loss or reduction in employment/salary**
 - Resentment against company/boss
 - **Living beyond means** (mortgage, credit cards)
- The more **dissatisfied** the employee, the more likely they are to commit fraud
- **Economic conditions** accelerate all of the above motivations



Opportunities

- **Personally created opportunities**
 - **Familiarity with operations** including cover-up capabilities
 - Position of trust where employee is **left on their own**
 - Close association with suppliers and other key people (conflicts of interest)
 - Collusion

Opportunities (Continued)

- **Organizationally created opportunities**
 - Absence of policies and procedures
 - **Lack of adequate controls:** administrative, operational, processing or documentation
 - **Turnover/loss of key employees** (consolidation, appointments/exempt positions)
 - Inadequate personnel screening policies
 - **Constantly operating under crisis conditions**
 - Impersonal relationships and **low morale**



Results

- What do all the highlighted motives, opportunities and rationalizations have in common?....they coincide directly with the current school district environment in the State of Michigan.
- Consolidation of services, privatization, personnel losses/reductions, salary and benefit reductions, etc. are all likely to increase the stress on the fraud triangle.

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- So what can you do to keep this from happening in your district?
 - With less time
 - With less staff
 - With less money

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- What can you do to prevent and/or detect fraud in your district?
 - Create a culture of honesty and ethical behavior in your district – set the tone at the top
 - Have proper ethics training inside and outside the business office
 - Design and implement documented procedures and internal controls
 - Conduct internal/external surprise audits
 - Establish an internal fraud hotline/whistleblower program
 - Create an environment in which employees believe that dishonest acts will be detected, are not tolerated and are punished

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- Create a culture of honesty and ethical behavior in your district – set the tone at the top
 - Employment related activities
 - Political activities
 - Confidentiality
 - Gifts
 - Contractual relationships
 - Reporting of contemporaneous employment

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- **Have proper ethics training inside and outside the business office**
 - Statement of duties and standards of conduct expected
 - Prohibited acts
 - Disclosure requirements

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- **Design and implement documented procedures and internal controls**
 - Documented procedures for all operations
 - Segregation of duties to the extent possible
 - Independent monitoring and review

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- **Conduct internal/external surprise audits**
 - Operations located outside the Business Office
 - High volume cash operations
 - Billing and collection operations
 - Operations lacking segregation of duties
 - Payroll
 - Vendors

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- Establish an internal fraud hotline and/or whistleblower program
 - Anonymous
 - Free of any possible recriminations
 - Utilize an outside organization (legal counsel)
 - Publicized and encouraged use

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- Create an environment in which employees believe that dishonest acts will be detected, are not tolerated and are punished
 - Honest and transparent workplace
 - Expect high ethical standards
 - If fraud is suspected, don't ignore it
 - If fraud is found, don't hide it
 - If fraud is proven, punish it and correct the problem

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IT Security

- Physical security
- Firewalls and virus protection
- Passwords and user access
- Backup and restore
- Disaster recovery
- Unauthorized/illegal use
- Internet privacy

**Ethics – Board Member
Perspective**

- Communication
 - All for 1 – 1 for all
 - Confidentiality
 - No time to hide under a rock – keep in touch with the District’s stakeholders
 - Breaches of ethics from any of the District’s team members reflects on the Board

**Ethics – Board Member
Perspective**

- Communication – (Continued)
 - If a problem arises, lack of communication makes the District look bad
 - Overall goal – STAY OUT OF THE PAPER

**Ethics – Board Member
Perspective**

- Governance Issues
 - Budget cutting
 - Must do what is best for the Kids and the District – no favors
 - What impact do cuts have on fiscal accountability – control structure?

**Ethics – Board Member
Perspective**

- Fiscal Pitfalls
 - Federal and State grants
 - Shifting staff from General Fund funding to Grant funding – supplanting
 - Is our control structure sufficient to prevent problems – aka “Findings”

**Ethics – Board Member
Perspective**

- Fiscal Pitfalls – (Continued)
 - Bond and Sinking Funds
 - Pressures for use on outside of legislatively allowed purposes
 - Constant education required
 - Taxpayers
 - Staff
 - Board Members

**Ethics – Board Member
Perspective**

- Fiscal Pitfalls – (Continued)
 - Accruals
 - Board - timing of expenditures
 - Gray areas
 - Pressure to stay within budget

**Ethics – Board Member
Perspective**

- Other Considerations
- Outside fundraising & “fundraisers”
- Vendor contracts and bidding
- Contract negotiations – transparency
- Cutting corners

**Ethics – Business Manager
Perspective**

- Cornerstones of Ethical Behavior
 - Protect the public trust
 - Education of children
 - Entrusted with public funds
 - Entrusted with private (student and employee) information

Questions and Answers



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