Identifying and Dealing With Fraud and Abuse

September 9, 2003
3:00 – 6:40 pm

Agenda

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<td>3:00 – 3:05 pm</td>
<td>Introduction</td>
<td>Tom White, MSBO</td>
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<td>3:05 – 3:45 pm</td>
<td>The Basics of Fraud &amp; Abuse</td>
<td>David Wells, Plante &amp; Moran, PLLC; Sherry Buist, Standard Federal Bank</td>
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<td>3:45 – 4:05 pm</td>
<td>Property/Employee Theft</td>
<td>Tom DeClercq, Michigan State Police</td>
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<td>4:05 – 4:20 pm</td>
<td>Questions and Answers</td>
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<td>Legal/Policy Issues</td>
<td>Roy Henley, Thrun, Maatsch &amp; Nordberg P.C.</td>
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<td>Break</td>
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<td>Public Relations in the Aftermath</td>
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<td>5:30 – 6:40 pm</td>
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The Fraud Triangle

PRESSURES/MOTIVES

- Greed
- Living beyond one's means
- High personal debt
- High medical bills
- Poor credit
- Personal financial loss
- Unexpected financial needs
- Addictions
- Extramarital affairs

Pressures/Motives

Source: Occupational Fraud and Abuse by Joseph T. Wells, CFE, CPA
The Fraud Triangle (Continued)

**OPPORTUNITY**
- Lack or circumvention of internal controls
- Past failure to discipline embezzlers
- Management apathy
- Ignorance or incapacity to detect fraud
- Lack of an audit trail

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The Fraud Triangle (Continued)

**RATIONALIZATION**
- The Organization owes it to me
- I am only borrowing the money
- They can afford it
- I deserve more
- It’s for a good purpose

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Definitions

- Fraud
- Internal Fraud vs. External Fraud
- Embezzlement vs. Larceny
Profile of an Embezzler

- Tends to be a trusted employee
- Works long hours
- Dislikes mandatory vacation policy and cross training
- Likeable and generous (especially with new source of wealth)
- Personality may change, moodiness may set in, when stress of embezzlement catches up to them or when they feel they are about to be caught
- Deceptive and are usually quite good at lying

Embezzlement Insights

- Embezzlement occurs when money is taken before or after it hits the bank.
- Taking money before it hits the bank is a little more risky because customers’ accounts will have to be adjusted to conceal the embezzlement.
- Embezzlements start out small by “testing the waters” and grow over time. Thus, when discovered, it is usually at its highest level.

Embezzlement Insights (Continued)

- Embezzlers don’t quit embezzling when they think they have taken enough. They quit embezzling when they are either close to getting caught or there is no more money left.
- Embezzlers get bolder and sloppier over time.
- The signs are usually there.
Vulnerabilities

Symptoms of Organizations that are vulnerable to fraud:
- An Organization that has experienced a recent fraud and the perpetrator(s) did not receive sufficient discipline
- Accounting anomalies – the numbers just don’t make sense
- Frequent overdrafts in Company bank accounts
- Bank reconciliations not prepared timely
- Extravagant lifestyles of employees that seem incongruent with their compensation

Vulnerabilities (Continued)

- Unusual behavior of key employees
  - Depression
  - Addiction
  - Mood swings
- Rumors, tips and complaints from customers, suppliers and employees
- Management and/or employee circumvention of internal controls
- High employee turnover

Vulnerabilities (Continued)

- Poor morale
- The Organization that is going through downsizing
- Frequent changes in management
- Reluctance of key employees to take vacations
- Something just doesn’t feel right
Small organizations tend to be more vulnerable to embezzlement due to less stringent controls and lack of segregation of duties. The most common frauds are asset misappropriations involving an Organization's cash and checking accounts. Some of the most common embezzlement schemes include:

- Lapping Schemes
  - Checks written to the embezzler and cashed
  - Checks written for embezzler's personal expenses, i.e. car payments, utility bills, credit cards
  - Checks written to fictitious vendors or businesses owned by the embezzler
  - Wire transfers from the Organization to the embezzler's personal account
  - Intercepting checks made out to the Organization and directing the bank to cash and convert them to cashier checks

- Expense report fraud – duplicate submissions, over submissions
- Changing amounts on checks to vendors, initialing the new amounts, and splitting the difference with the vendor
- Overpayments to vendors and having the refunds mailed to the perpetrator
- Signing over ghost-employee checks
- Cashing checks made out to a business
- Forged checks
- Fraudulent endorsements
Fraud Indicators

ACCOUNTS RECEIVABLE/SALES
- Customer invoices billed out of sequence
- Gaps in invoice numbers
- Customer address on invoices different than the address listed in customer master file
- Multiple shipping addresses used for the same customer
- Manual, non-cash debit/credit adjustments made to customer files
- Customers with credit balances

Fraud Indicators (Continued)

ACCOUNTS RECEIVABLE/SALES (continued)
- Customers whose addresses are the same as employee addresses
- Significant delinquent balances among newer customers
- Accounts written off shortly after being established, particularly ones on which no payments were recorded
- Unusual items or patterns
- Changes or anomalies in composition of sales
- Sale voids/refunds by location, employee, customer, etc.

Fraud Indicators (Continued)

ACCOUNTS PAYABLE/PAYROLL
- No confirmation process for wire transfers
- Electronic checks
- Duplicate/over-payments to vendors
- Creation of fictitious vendor – how easy is it to set up a vendor?
- Monitoring of vendor maintenance files
- Checks issued out of sequence – review the beginning part of the bank statement
Fraud Indicators (Continued)

ACCOUNTS PAYABLE/PAYROLL (continued)

- Vendors and employees whose addresses are post office boxes
- Vendors and employees who have the same address and/or phone number
- Vendors/employees whose address and/or phone number does not match with directories
- Vendors with no or disconnected phone numbers
- Vendors that have been recently added and old vendors that have been deleted

Fraud Indicators (Continued)

ACCOUNTS PAYABLE/PAYROLL (continued)

- Checks issued to vendors not on an approved vendor list
- Checks issued to unfamiliar vendors whose names are similar to legitimate vendor names
- Checks issued to vendors that fall under the threshold that would normally require further management authorization
- Checks coded to unusual balance sheet or expense accounts
- Dual endorsees on the backside of the check
- Individual endorsing the backside of a check issued to a business

Fraud Indicators (Continued)

ACCOUNTS PAYABLE/PAYROLL (continued)

- Checks with signature stamps
- Missing cancelled checks that are listed on the bank statements
- Checks issued to unfamiliar vendors whose names are similar to legitimate vendor names
- Checks issued to vendors that fall under the threshold that would normally require further management authorization
- Checks coded to unusual balance sheet or expense accounts
- Dual endorsees on the backside of the check

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Fraud Indicators (Continued)

ACCOUNTS PAYABLE/PAYROLL (continued)
- Individual endorsing the backside of a check issued to a business
- Checks with signature stamps
- Missing cancelled checks that are listed on the bank statements
- Check amounts recorded through journal entries rather than through check/disbursement registers or modules

Fraud Indicators (Continued)

ACCOUNTS PAYABLE/PAYROLL (continued)
- Payments for services that do not require delivery of goods or significant documentation to obtain payments. (For example payment of commissions or consulting fees.)
- Vendors in which client is sole customer, based on the vendor using consecutive invoice numbers over an extended period of time
- Manual, non-cash debit/credit adjustments made to vendor files

Fraud Indicators (Continued)

ACCOUNTS PAYABLE/PAYROLL (continued)
- Vendor master files that have been recently edited
- Vendors with debit balances
- Invoices with even dollar charges
- Vendors with non-matching “bill to” and “ship to” addresses
- Employees who have not executed tax withholding forms, health insurance benefits, or have not claimed health benefits in the current year
Fraud Indicators (Continued)

ACCOUNTS PAYABLE/PAYROLL (continued)
- Inactive employees who are receiving payroll checks
- Employees with inactive/bogus social security numbers
- Multiple employees with the same social security number

GENERAL LEDGER/REPORTS
- Journal entries with no description
- Journal entries using “misc”, miscellaneous”, or “adjust”
- Journal entries to “Cash” accounts
- Bank reconciling items
- Fraudulent bank statements

Key Documents
- Bank statements
- Checks
- Bank reconciliations
- General ledgers
- Journal entries
- Vendor master files
- Payroll master files

Fraud Prevention
- Many frauds are discovered by accident or through anonymous tips. The following are preventive measures that Organizations can employ to reduce the possibility of embezzlement:
  - Set the proper tone at the top of the Organization
  - Mail monthly bank statements to the home of the Owner/CEO or to the office of a Board member
  - Perform Specialized Internal Control Reviews
Fraud Prevention (Continued)

- Have bank reconciliations performed in a timely manner by individuals who do not have access to accounting records and who do not process checks or deposits
- Implement Positive Pay
- Perform background checks
- Secure check stock and build check security features into checks
- Secure signature stamps

Fraud Prevention (Continued)

- Implement a Hotline service
- Rotate job responsibilities without notice
- Enforce mandatory vacations
- Implement a good system of internal controls, including segregation of duties
- Create a positive and open work environment

Sherry Buist
Standard Federal Bank
Member ABN AMRO GROUP
INTERNAL THEFT
Principal Categories of White Collar Crime
- Theft of Money or Property
- Theft of Trade Secrets
- Conflicts of Interest
- Breach of Fiduciary Duty
- Bribery
- Concealment of Material Facts
- Misrepresentation of Material Facts

INTERNAL THEFT
Embezzlement: To appropriate fraudulently to one’s own use, money or property entrusted to one’s care.

INTERNAL THEFT
Defalcation: Misappropriation of money held by an Official, Trustee, or Other Fiduciary.
INTERNAL THEFT

Larceny: The wrongful taking of money or property of another with the intent to convert or to deprive the owner of its possession and use.

INTERNAL THEFT

Elements of Embezzlement/Defalcation:

1. The suspect took or converted…
2. Without the knowledge or consent of the owner…
3. Money or Property of another…
4. That was entrusted to the suspect.

2002 Report to the Nation on Occupational Fraud & Abuse

- The Wells Report covers 633 occupational fraud cases that caused over $7 billion in losses.
- More than half the thefts caused a loss of at least $100,000.
- Typical perpetrator is a first time offender.
• Cash is a target 90% of the time.
• Small businesses are the most vulnerable for fraud & abuse with average losses of $127,000 as compared to larger business whose average loss was $97,000.
• The average scheme lasted 18 months.

• Fraudulent statements are the most costly form of fraud with median losses of $4.25 million per scheme.
• Corruption schemes accounts for 13% of reported frauds and cause more than $500,000 in losses on average.

• Most common method of detection was by a tip from an employee, customer, vendor, or anonymous source. Second most common method of detection was “by accident”.
• Organizations with fraud hotlines cut their losses by approximately 50% per scheme.
2002 Report to the Nation on Occupational Fraud & Abuse

• Internal audits, external audits, and background checks also significantly reduce losses.
• The Wells Report estimated that 6% of revenues in 2002 would be lost to fraud & abuse.

The Perpetrators:
1. Position: Schemes committed by Managers & Executives, on average cause a median loss of $250,000.
2. Collusion: When collusion is involved median loss increased to $450,000 per case.

The Perpetrators: (cont.)
3. Gender: Number of cases reported with respect to gender showed that the number of incidents were very close; although the losses caused by males were more than three times higher as those committed by females.
The Perpetrators: (cont.)

4. Individuals under the age of 26 committed 6% of frauds; Persons over the age of 35 committed 60% of the thefts; and persons between the ages of 36 – 50 committed nearly 50% of the thefts.

5. Education: Losses caused by perpetrators with a college education was 3.5 times higher that those with high school diplomas.

6. Criminal History: Most perpetrators are first time offenders.

I am a victim of Fraud, now what??????

You discover that a trusted employee in your operation has been stealing money for a substantial amount of time.
Issues to Consider

- Employee status (e.g. terminate, suspend with or without pay, etc.).
- Interview/Interrogate employee depending on your firm's position on this issue.
- Obtain confession; “written” if possible.

Issues to Consider

- Secure work area/records.
- Contact either Investigations Dept. or Audit in order to perform a thorough investigation of theft.
- Contact Law Enforcement (e.g. local, county, state, federal).

Issues to Consider

- Examine existing policies and procedures that permitted the thief to perpetrate the scheme without detection.
- Change or modify polices/procedures to prevent reoccurrence of theft.
Recovery of Assets

1. Voluntary assignment of personal assets (e.g. 401K, IRA's, Bank accounts, etc.).
2. Court Order blocking transfer of assets (e.g. Bank accounts, property, etc.).

Recovery of Assets

5. Civil Suit.
6. Attempt to recover funds from other individuals that may have facilitated theft knowingly or unknowingly (e.g. accomplice).

I believe that my Bank facilitated this scheme (unknowingly); but had they exercised reasonable care this fraud would have been detected earlier.
I believe that my Bank owes me for the loss I incurred.
What steps do I take?

- Contact your financial institution as soon as possible and inform an Officer of the Bank what has happened.
- Inform the Bank of the type and scope of the fraud (e.g. theft or corp. checks/ongoing 18 months).

What steps do I take?

- Request assistance from the Bank's Investigation Dept. or Audit Group.
- Retain legal counsel.
- Document loss and submit claim to Bank.

What actions will the Bank take?

- Bank will review claim & determine what if any liability rests with the Bank and what may be the result of negligence or culpability on the part of the company (e.g. employee has criminal background).
What actions will the Bank take? (cont’d)

- All supporting documents will be reviewed.
- Possibly customers & employees of the company may be interviewed.
- Affidavits of Forgery obtained.

What actions will the Bank take? (cont’d)

- Has the matter been referred to Law Enforcement.
- The firm’s outside auditing firm may be contacted for the results of any recently completed compliance audits.

What actions will the Bank take? (cont’d)

- Workflow and paper trails and associated job responsibilities will be reviewed.
- Checks and balances (or lack of) will be reviewed.
- If possible the perpetrator will be interviewed.
Bank Defenses
Uniform Commercial Code (UCC)
Article 3

• Article 3-404
  Imposters; Fictitious Payees
• Article 3-405
  Employer's Responsibility for
  Fraudulent Endorsement by Employee
• Article 3-406
  Negligence Contributing to the Forged
  Signature or Alteration of Instrument

Bank Defenses
Uniform Commercial Code (UCC)
Article 4

Article 4-406
Customer’s Duty to Discover and
Report Unauthorized Signature or
Alteration

Article 4-111
Statute of Limitations

Summary

Must Have:

• Firm/Entity needs to have adequate controls in place.
• Firm/Entity needs to have sound operational practices.
• Firm/Entity needs to have an effective Audit program.
Summary
Suggestions:

• Hotline to report suspected thefts/wrongdoing.
• Unannounced/surprised audits of funds/books.
• Expect the unexpected.
• Code of Conduct Policy.

Summary
Suggestions: (cont’d)

• Mandatory 1 week vacation/time off for sensitive areas.
• Criminal background/Credit checks on “new hires” & employees in key/sensitive positions.
• Insurance coverage.

Tom DeClercq
Michigan State Police
Property/Employee Theft
Theft Prevention

- **Thefts By Unknown Suspects (B&E)**
  - Good lighting/locks
  - Limit access to building
  - Single point of entrance & exit after hours.
    - Emergency exit is an exception with alarm
  - Use of internal barriers

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Theft Prevention

- Regular contact with police dept. for frequent property inspections (local/county/state)

- **Thefts By Students/Teachers**
  - Establish zero tolerance scale
  - Prevention & suspension/dismissal for theft

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Theft Prevention

- Limit access to equipment/property when not in use
- Require accountability by teachers for monthly inventory on class property (set dollar amount)
Preventive Measures

- Tag or label all school equipment
  - Pre-established dollar amounts for equipment
  - Use of internal (hidden) tags for items such as computers
    - Tags should list owner of property and contact phone number

Preventive Measures

- Inventory list established and maintained by office and classroom teacher
  - Set inventory checks at regular intervals
  - Video surveillance

What To Do Once A Theft Has Occurred

- Tip line established for anonymity
- Contact with police (detective)
- Establish what property had been stolen through inventory or audit
- Possible reward leading to recovery and/or arrest
Embezzlement/Fraud

**Law Enforcement Perspective**

- Must have system of checks & balances in place
- All levels of supervisors with fiduciary responsibilities must have oversight or be accountable

Investigation/Prosecution

**Law enforcement should be brought in immediately upon suspicion of fraud/embezzlement**

- Law enforcement trained in interview/interrogation
- Law enforcement is unbiased (not a co-worker of parties involved)

Investigation/Prosecution

- Use of search warrants and/or investigative subpoenas to gain evidence that could be destroyed/altere
- Resources available such as laboratory, Computer Crimes Unit, polygraph, surveillance
Investigation/Prosecution

- Civil arrangements should be avoided
  - After suspect has defaulted on civil arrangement, victim has limited resources on receiving restitution when not established by court

Roy Henley
Thrun, Maatsch & Nordberg, P.C.
Legal/Policy Issues

Spectrum of Legal Issues
- Authorized/Unauthorized Actions
- Actions with Civil Legal Implications
- Actions with Criminal Legal Implications
Authorized/Unauthorized Actions
- “The Well-Intentioned Mistake”
  - Expenditures of Public Funds for Private Purposes
  - Use of Private Funds in a Segregated Account

Actions with Civil Legal Implications
- Employee Performance Issues
- “Crossing the Line”
  - Employee Expenses
  - School Fund Management
  - Use of School Property and Equipment

Actions with Criminal Legal Implications
- Embezzlement
  - By Public Officer, Agent, or Servant
- Larceny
  - From Specific Places
  - By Conversion
  - By False Personation
- Uttering and Publishing
Investigations
- Witness Statements
  - Union Rights
  - Contractual Rights
  - Self-Incrimination Issues
- Evidence Preservation
- Documentation
- FOIA Implications

Employment Actions
- Contracts
  - Collective Bargaining Agreements
  - Individual Contracts
- Due Process Issues

Civil Litigation
- Burdens of Proof Against Employees
  - Recovery Actions
    - Immunity
    - Collection
  - Tenure Actions
- Against Employers
  - Employment Actions
    - Contract
    - Due Process
    - Civil Rights
Criminal Litigation

- Governmentally Controlled
- Sentencing
  - Restitution
- Effect Upon Civil Litigation

Policy Considerations

- Property Usage
  - Acceptable Use Policies
    - Computers
    - Other Property
  - Lack of Privacy Interests
  - Inventory Procedure

Policy Considerations

- Account Management
  - Board Authorization
  - Regular Account Reconciliation
  - Board Approval of All Employee Payments
  - Limited Access to Signature Places for Checks
  - Immediate Restrictive Endorsement of Checks
Cash Management

- Establish Procedures for:
  - Collection
  - Deposit
  - Recording
- Separation of Duties

Fraud & Abuse

Break time
We will return promptly at 5:00 pm
Questions:
msbo@wkar.org

Janet Roberts
Huron Valley Schools

Public Relations in the Aftermath
Public Relations in the Aftermath

- Be Proactive
- Create a Communications Plan
- Spread Your Message

The Communications Plan

What is the goal of the plan?
- To proactively address the issue and counter any negative impact
- Under riding theme
  - Commitment to accountability—we take our role as stewards seriously

The Communications Plan

Issues
- How, what & when to communicate
- To whom
- How to show we have and will continue to do to safeguard our assets
- How to demonstrate we will hire & retain quality employees
- How to enhance our image
The Communications Plan

Actions/Timing
- General Actions
  - Designate spokespersons
  - All media go through Communications Office
  - Continue current/planned PR

Actions/Timing (cont’d.)
- Staff
  - Use “7 Questions” document for COAT/Board
  - Notify leadership team and supply talking points
  - Remind leadership of crisis communication protocols
    - Limit access to staff & students
    - All inquiries go to Communications Office
  - Ask leadership to monitor, evaluate reactions
  - Notify all staff
  - Encourage all staff to counter misinformation

Actions/Timing (cont’d.)
- Community
  - Inform key stakeholders of overview and steps
  - Superintendent Guest Column in local papers
  - Article in District newsletter
  - Articles for building newsletters
The Communications Plan

Actions/Timing (cont’d.)

- Media
  - Press release announcing incident and our findings/actions
  - Increase flow of positive PR to media
    - Both from buildings (PR Liaisons) and District
  - Create media statement for frontline
    - “This matter has been turned over to the authorities. I’m not free to comment further. You can contact our Communications Office……”

Public Relations in the Aftermath

- President’s Statement:
  “This demonstrated to the community that our administration takes its responsibility to safeguard the assets of the District very seriously.”

Further, Squires indicated, “Given the complexity and sophistication of this crime, we could have incurred considerably more losses had it not been for the experience and skill of our business staff.”

Establish Your Media Contacts

- Communications Director
- Superintendent
- Asst. Supt. of Administrative
- Legal Counsel
- CPA or Independent Fraud Examiner
The Press Release

Huron Valley Controls Uncovers Fraud
The Huron Valley Schools’ internal audit controls uncovered that a clerk in its business operation had embezzled funds totaling approximately $150,000 from the District. The employee has been dismissed and is currently under investigation of the FBI. The District will recover all funds.

Telling Key Stakeholders

As this story unfolds in the media, community members may ask you about it. Share the facts I have presented. Reassure them Huron Valley Schools is committed to its accountability to the community—we take our role as stewards of the public trust very seriously.

In talking to community members, I encourage you to use this opportunity to share the goals and direction we will pursue this year. Under the year-three initiatives in the District’s Strategic Plan, we expanded our educational options to provide more opportunity, flexibility and choice for staff, students and parents.

Consistent Messaging

Leadership & Management Overview & Talking Points for Staff/Community

Reassure them that “Your District” is committed to its accountability to the community—we take our role as stewards of the public trust very seriously.
Tell Staff The Whole Story

*Superintendent Update Sent to All Employees before press release (also sent via email to HVS employees)*

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Revisions Along the Way

- Inform key leaders/spokespeople of any changes as new information arises.
- Integral to this plan is sticking to the statement, referring all media inquiries to the Communications Department and reinforcing the positive attributes of the District.

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The Seven Questions

- Provide leadership with “Seven Question” review of the fraud
- Allows you to create concise, factual overview of the incident
- Think in terms of who, what, how, why, etc.
Extra Support for Key Persons

- Talking Points for President and Treasurer—provides more detail as media scrutiny increases
- Staff and remaining Board members stick to simple media statement

Plan Your Release

- Timeline of Events
  - Board & legal counsel approve final press release
  - Exercise option to “leak” to local weekly press
  - Notify leadership of release (who in turn notifies their staff)
  - Notify union of former employee
  - Follow up message from Superintendent to all staff
  - Fax out release to all media (Supt. makes personal contact with key media)
  - Key communicator letter sent out
  - Put articles in district and building newsletter

Mari McKenzie
Yeo & Yeo, P.C.

Roles, Responsibilities & Ethics
ETHICS

DOING WHAT IS RIGHT

- Extends outside business and accounting office
- Board members
- Administrators

Responsibilities

- Duty of care
- Duty of loyalty
- Duty of obedience
Prevent, Deter and Detect Fraud

- Culture of honesty and high ethics
- Antifraud processes and controls
- Appropriate oversight process

Tone at the Top

- May seem obvious, but it goes a long way toward preventing fraud in an organization
- Establish core values

Code of Ethics

- Important role
- Tone at the top
- Foster culture of honesty and accountability
- Communicate to all employees
Code of Ethics

- Protection and proper use of district assets
- Compliance with laws, rules and regulations
- Encourage the reporting of any illegal or unethical behavior

Code of Ethics

- Guidance to personnel
- Definitions of what is acceptable
- Consequences for unacceptable behavior

Code of Ethics Considerations

- Organizational code of conduct
- General employee conduct
- Conflicts of interest
- Outside activities, employment and directorships
- Relationships with clients and suppliers
Code of Ethics Considerations

- Gifts, entertainment and favors
- Kickbacks and secret commissions
- Organization funds and other assets
- Organization records and communications

Code of Ethics Considerations

- Dealing with outside people and organizations
- Prompt communications
- Privacy and confidentiality

Ethics

- Doing what is right
- Set the tone at the top
- Communicate to all employees
Expectations

Recap of Program Thus Far:
- Provided examples of Fraud & Abuse
  “It could happen to you”
- Discussed the legal do’s and don’ts
- Outlined how to handle public relations
- Described an environment that promotes ethical behavior

Understand our world has changed:
- Almost daily reminders of Sarbanes-Oxley Act of 2002
- Schools & School Boards are not covered by this act – however….
- Public expectation that you are maintaining the same standards
Expectations

- Auditors under increased pressure and scrutiny
  - Arthur Andersen
  - GAO Independence Standards
- Examples

MARKETPLACE

Boardrooms Under Renovation

Independence Of Directors Is Elusive Goal

Private Companies Also Feel Pressure to Clean Up Acts
Expectations
Of the Central Office:

- Cultivate a District climate of honesty & integrity
- Identify & deploy appropriate internal control procedures
- Develop internal audit functions where appropriate
- Avoid/disclose related party transactions

Expectations
Of The Central Office:

- Consider use of anonymous hotline for employees to report fraud
- Insure auditors have appropriate access to the Board
- Inform Board of any significant financial issues
Expectations
Of The Board:
- Cultivate a district climate of honesty & Integrity
- Avoid/Disclose related party transactions
- Support central office efforts to institute and monitor strong internal control measures

Expectations
Of The Board:
- Allocate sufficient resources to insure proper oversight & safeguarding of district operations
- Adopt a policy of zero tolerance for fraud & abuse

Expectations
How to accomplish these expectations:
- Teamwork in developing accountability
- Ask your auditors for help
- Operate with the best interest of the district & community in mind
- Be flexible – it’s a changing environment for Boards, Central Office & Auditors
Mari McKenzie
Yeo & Yeo, P.C.

Roles, Responsibilities & Ethics

AUDIT

Accounting

Gathering and presenting financial information
Auditing

- Independent review of the fairness of financial statements
- Systematic examination and appraisal of systems in an opinion

Stakeholders in the Audit Process

- Board
- Citizens
- Administration
- Parents
- Employees
- Bondholders

Objectives

- Accountability to the public
- Financial information presented in accordance with GAAP
- Financial statements free of material misstatements
Objectives

- Adherence to financial compliance requirements
- Deficiencies in the accounting system

Objectives

- Provides board and management an opportunity to establish working relationships with individuals who specialize in school financial management and accounting and who are familiar with the latest developments in the field

Evolution

- New fraud standard SAS 99
  *Consideration of Fraud in a Financial Statement Audit*
Auditor Responsibility

SAS 99 does not increase the auditor’s responsibility to detect fraud

Responsibility to plan and perform the audit to obtain reasonable assurance that financial statements are free of material misstatement, whether caused by error or fraud

Additional guidance and requirements

Management Responsibility

SAS 99 does not alter management’s responsibility with respect to fraud

Management is responsible for designing and implementing controls to prevent, deter and detect fraud
What is an Audit Committee?

- Includes
  - Executive Branch of the Organization
  - Legislative Branch of the Organization
  - Members of the Public

What Does it Do?

- Manages Auditor Acquisition Process
- Manages Acquisition of Services Outside the Attest Function
- Discusses Audited Financial Statements with Auditor
- Discusses Management Letter with Auditor
- Discusses Reportable Conditions with Auditor
What Does it Do?
- Meets with District Internal Audit Personnel
- Maintains Procedures to Receive and Address Complaints

Audit Committee Members
- District Chief Financial Officer
- Member(s) of the Board
- Community Person(s) with Financial Expertise

Enhance District's Financial Reporting
- Auditor Meets with Audit Committee
  - Committee meets with executive and legislative branches
  - Discuss financial reporting decisions
  - Discuss financial statements and opinion
  - Discuss internal controls
  - Discuss audits of significance not reflected in financial statements
Enhance District’s Financial Reporting
Audit Committee Approach Provides for Direct Auditor/Board Committee Interaction

Questions?
Please e-mail your questions to:
MSBO@wkar.org

Thank You!
If you are a site that is offering SB-CEU, please be sure and turn in your forms at the end of the program.