



# IT Vendor Fraud

PRESENTED BY  
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# Today's Schedule

- Fraud and Fraud Facts
- Examples – Vendor Fraud
  - Michigan schools in the news
  - Common purchasing/vendor fraud
- Vendor/Procurement Process Overview
  - What to worry about
- Prevention and Detection
  - Best practices to implement

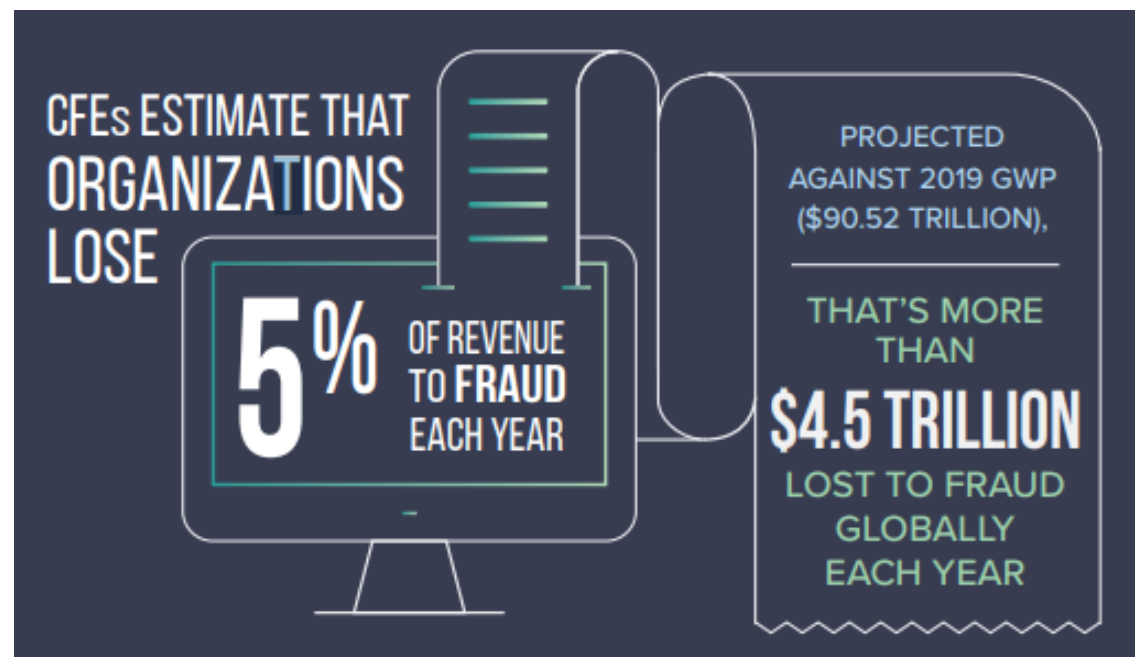
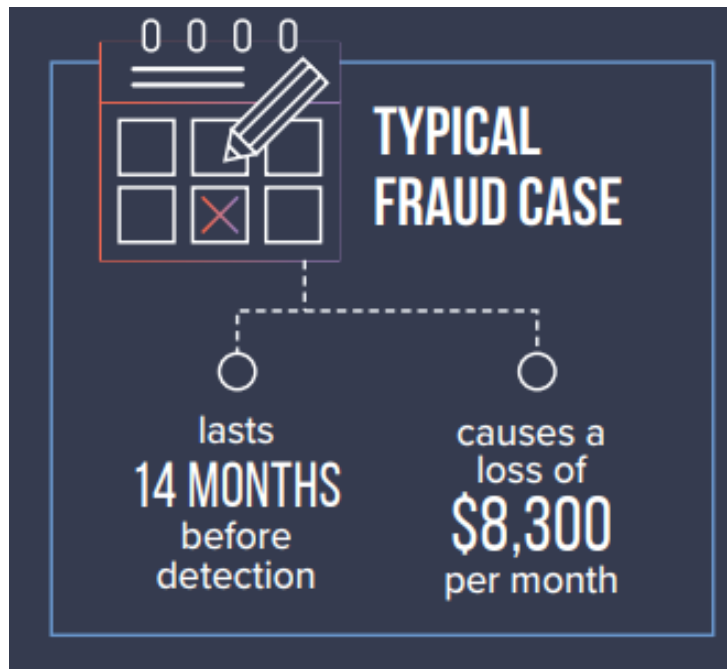
# Fraud Facts

- Association of Certified Fraud Examiners 2020 Global Study on Occupational Fraud and Abuse



AVERAGE LOSS  
PER CASE:  
**\$1,509,000**

# Fraud Facts



# Fraud Facts

**ASSET MISAPPROPRIATION  
SCHEMES** are the  
most common and least costly



**\$100,000**  
median loss

**FINANCIAL STATEMENT  
FRAUD SCHEMES** are the  
least common and most costly



**\$954,000**  
median loss

Education



MEDIAN LOSS

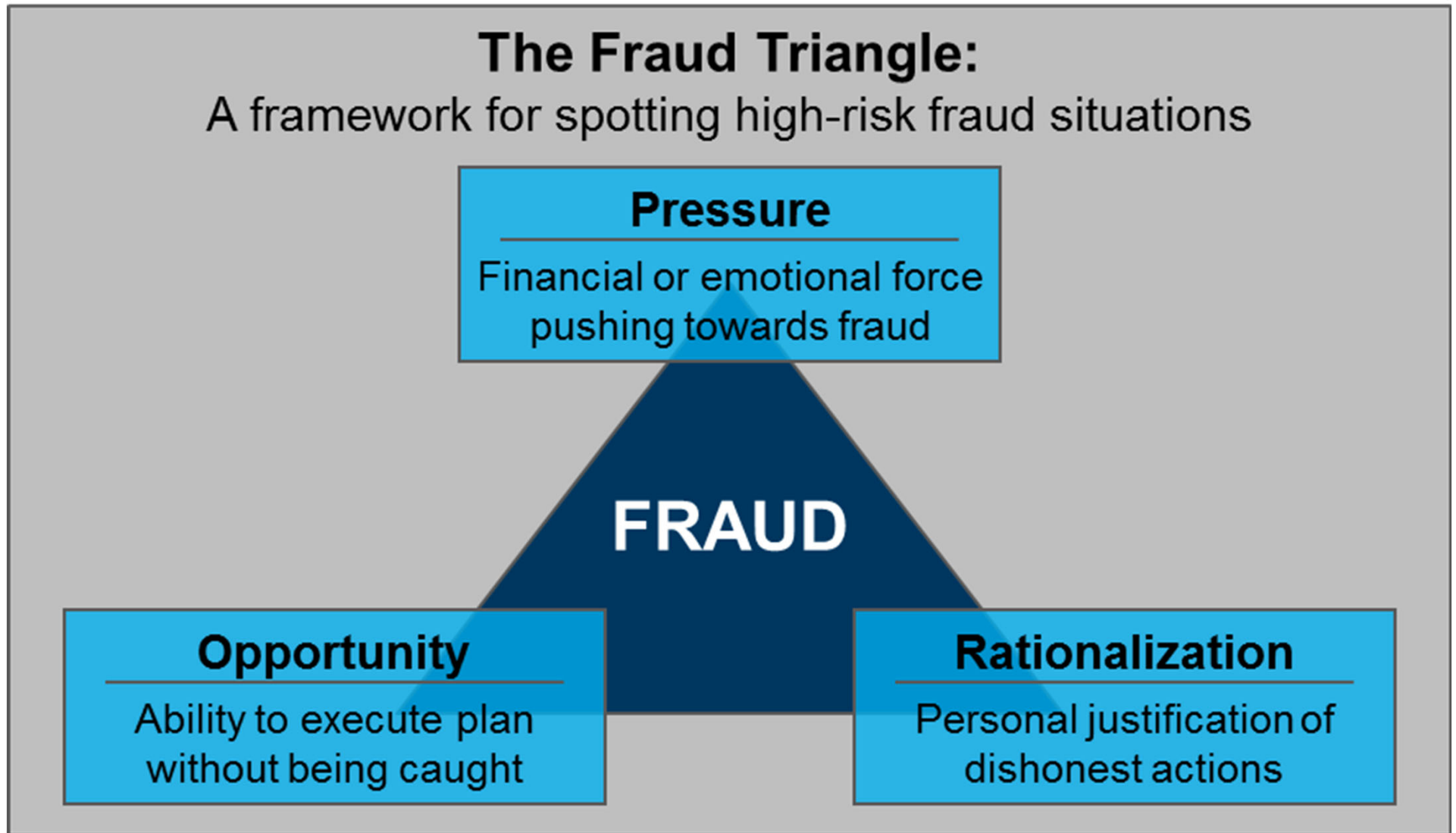
**\$65,000**

**82**  
Cases

# What is Fraud?

- Fraud is a deception that is intentional and caused by an employee or organization for personal gain. In other words, fraud is a deceitful activity used to gain an advantage or generate an illegal profit. Also, the illegal act benefits the perpetrator and harms other parties involved.

# Fraud Triangle



# Pressure/Incentive

- Financial hardship
- Personality changes
- Living beyond one's means
- Outside business interests
- Unwillingness to share workplace duties
- Need to meet budgets/projections





# Opportunity

- Fraudsters don't wish to be caught, so they must believe their activities will be undetected
- Opportunity is created through
  - WEAK internal controls and poor oversight
  - Poor tone at the top
  - Inadequate accounting policies
- Districts have the most control over this leg of the fraud triangle

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**I am  
underpaid!**

**I volunteer, I  
deserve something.**

**The boss steals,  
why not me!**

**I am working  
more and  
getting paid less!**

**It's just a loan!**





# The Average Perpetrator

- There are typically no distinguishing factors.
- Most occupational fraudsters are first-time offenders.
- Perpetrators typically have profiles that look like honest people.
- Correlation between fraud losses and the level of authority.
- Fraud losses tend to increase with longer tenured employees.

In nearly 85% of fraud cases, at least one **red flag** is present.

# Common Red Flags

- Individuals living beyond their means
- Unusually close associations between employees and vendors
- Financial or marital difficulties at home
- Excessive control issues
- A general “wheeler-dealer” attitude involving unscrupulous behavior



# Common Red Flags

- Association of Certified Fraud Examiners 2020 Global Study on Occupational Fraud and Abuse



# Michigan Schools in the News

- Ecorse Public Schools (2009) – Former assistant superintendent was charged with steering contracts to a company that he controlled and required to repay over \$1 million in restitution for fraudulent conduct related to the district's e-rate program.
- Montcalm Area Intermediate School District (2009) – Similar to Ecorse, former superintendent indicted for engaging in a conspiracy to accept a bribe from a vendor to ensure vendor's company was selected for e-rate service contract.

# Michigan Schools in the News

- Jackson Public Schools (2017) – Former middle school principal pled guilty to embezzling school funds. She fraudulently wrote checks out of the school's Principal Fund for personal use in excess of \$97,362.
- Detroit Public Schools (2016) – Employee manipulated procurement process to benefit his tutoring company. Vendor received \$1.3M payment for services over seven years of grant billings for tutoring services never delivered. Vendor fraud for textbooks and other supplies that cost the District an estimated \$2.7 million.

# Michigan Schools in the News

- Grand Haven Schools (2021) Alleged - Former Asst. Superintendent created a fictitious vendor, checks written in excess of \$900,000. Payment's hand delivered to the employee for delivery to vendor.
- Grand Rapids Public Schools (2022) Alleged – Cyber Fraud - A California couple diverted health insurance payments to their personal account for two months 2.8 Million.



# Common Purchasing/Vendor Fraud

- Fictitious vendors by employee
- Use of food service supplies for personal catering business
- Purchasing construction supplies for residence from bond money
- Falsification of records by vendor
- Personal utility bills paid with school funds
- Approving invoices to pay for goods/services not received
- Bid rigging
- Collusion/Kickbacks

# Procurement Process Overview

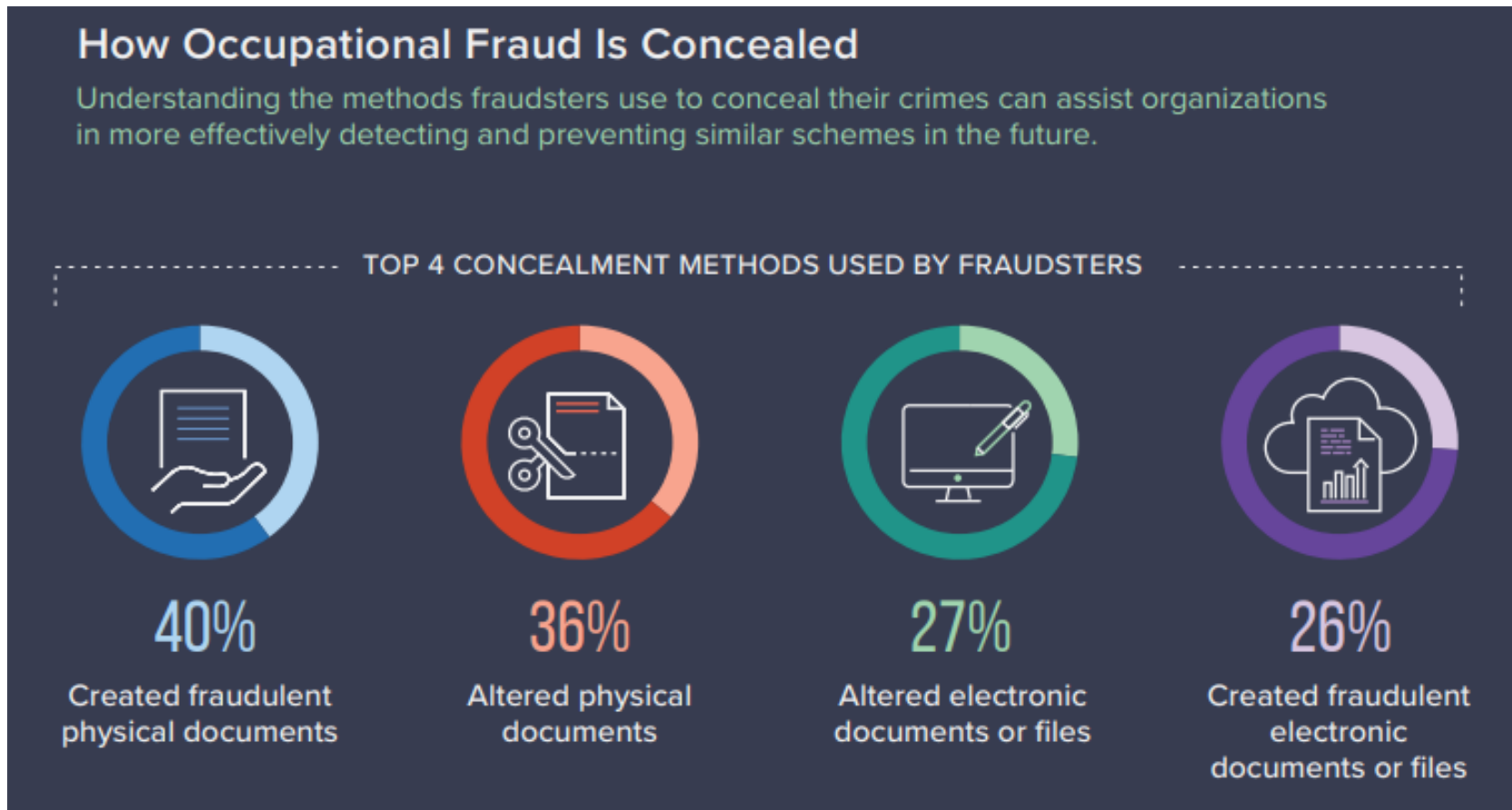
- Comply with necessary laws and district policies to obtain the best price for the goods/services needed for the School District
  - Often based on relationships
  - Decisions made objectively (price) and subjectively (quality/ability to meet expectations)
  - Conflicts arise between operations and finance
  - Process is often challenged by work-arounds and/or changes to plans
  - Quick decisions vs. long procurements

# Best Defense is a Good Offense

- Solid internal controls, implemented and followed correctly, are the **BEST** deterrent to fraud.
- Policies and procedures designed to provide reasonable assurance that assets are safeguarded against unauthorized use and disposition.
- MUST HAVE controls include:
  - Segregation of duties
  - Examining supporting documentation before payment
  - Reconciling bank statements (timely)
  - Verifications

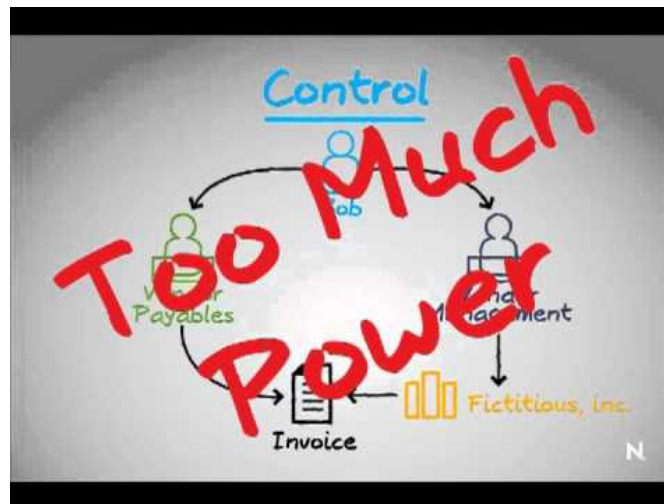
# Prevention and Detection

- Association of Certified Fraud Examiners 2020 Global Study on Occupational Fraud and Abuse



# Prevention and Detection

- Segregation of Duties
  - Certain accounting functions are designed to cross reference each other for accuracy.
  - Giving a single person unquestioned authority of finances is not a wise business practice.
  - Checks and balances help eliminate the opportunity for fraud or abuse.



# Prevention and Detection

- Know your policies and procedures
  - Make them available and accessible to all
  - Question deviations from procedures
  - Be mindful of new vendors and long-term vendors
  - Involve employees outside payables department
  - Disable unused vendors
  - Trust but verify

# Prevention and Detection

- Walkthrough procurements/payments
  - Start with purchase requisition
  - Walkthrough transaction to end – payment to vendor
- Randomly select transactions
  - Pick different kinds – bids, small purchases, recurring vendors
  - Determine if procedures and policies were followed
  - Segregation of duties present and effective?
  - Are all approvals present?
  - Is all documentation present?
  - Be skeptical

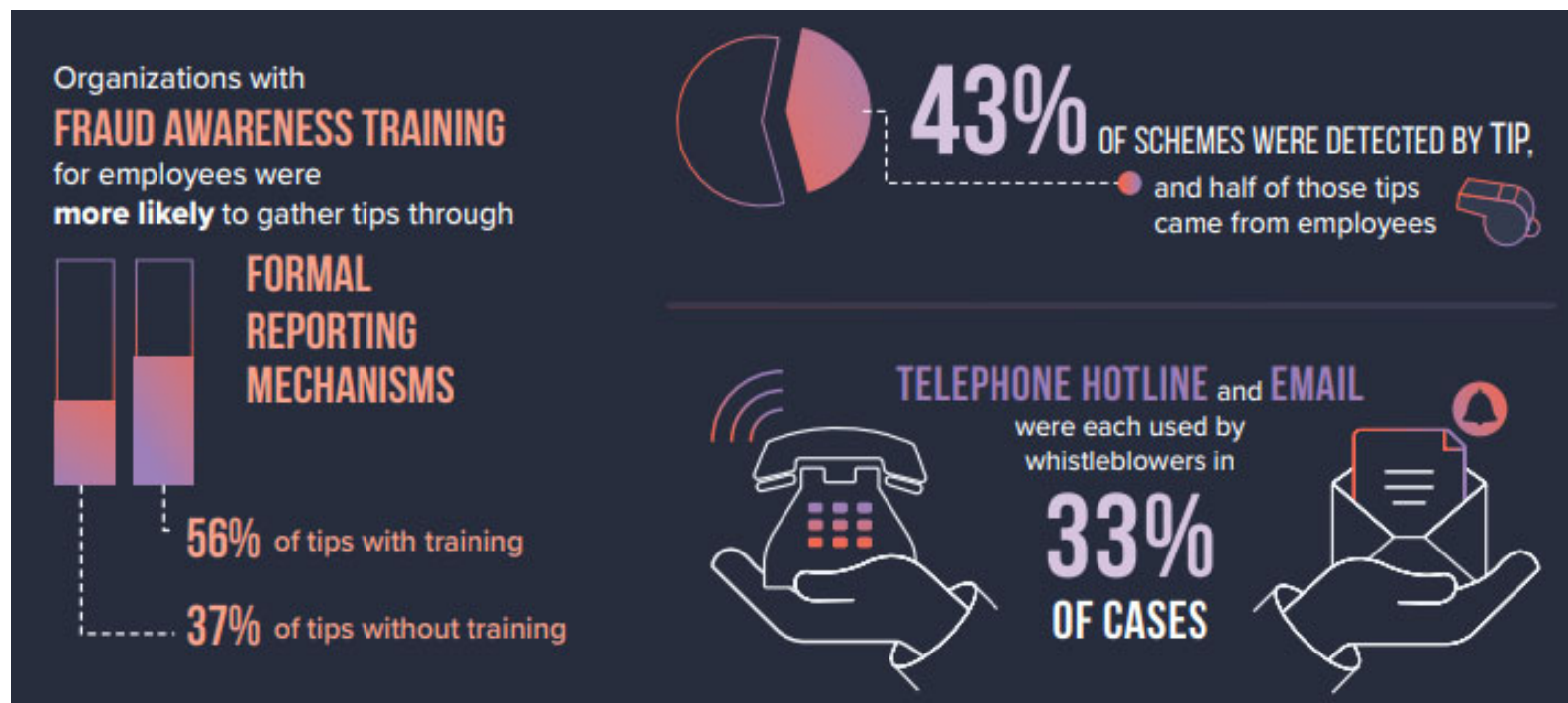
# Prevention and Detection

- Tone from the top
  - Very powerful and cheap
  - Communicate a policy of zero-tolerance through words and actions
  - Communicate to employees what constitutes fraud, how it impacts district
- Fraud hotlines/website
  - An outlet to communicate confidentially
  - For vendors and employees
  - Reinforces open-door policy



# Prevention and Detection

- Association of Certified Fraud Examiners 2020 Global Study on Occupational Fraud and Abuse



# Prevention and Detection

- Vendor management
  - Ban gifts
  - Verify vendor setup/change information
  - Disclose any personal relationships within District
  - Define acceptable business relationships
  - Obtain references and contact them
  - Background checks on vendors
- Vendors sign a code of conduct policy annually
  - List potential conflicts or acknowledge no potential conflicts
  - Acknowledge they will comply

# Prevention and Detection



- Think like an auditor
  - Compare vendor and employee addresses
  - Compare direct deposit/EFT account numbers
  - Compare tax ID numbers – any SSN for vendors?
  - Research your vendors – Google, website, invoice content
  - Reimbursements and CC receipts – agree to product received at District
  - Perform unplanned audit of supplies/equipment
  - Compare invoice info to website info
  - Compare receiving info to invoice/PO



See the Association of Certified Fraud Examiners Report and Checklist at:

<https://www.acfe.com/report-to-the-nations/2020/>

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Thank you!

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