

School Fraud

Three most-common forms of school fraud in Alabama:

1. Skimming cash before it has been recorded.
2. Theft of cash after it has been recorded.
3. Misappropriation of funds.
4. Check tampering.

Other forms detected in past years:

5. Creating bogus vendors.
6. Excess purchases.
7. Payroll fraud.

Examples of #1:

- a) Admission without issuing pre-numbered tickets.
- b) Taking money without issuing a receipt.
- c) Issuing a correct original receipt but altering the receipt copy. (Put cardboard under original.)
- d) No oversight or accountability for fund raising event. (Fund raisers have receipts that equal costs of items purchased for resale.)
- e) Vending machines and school concessions. (Principal purchases items for sale for in-school concessions from personal funds, runs the school store himself, and keeps all of the proceeds; principal purchases items for sale for in-school concessions from school funds, runs the school store himself, and keeps all of the proceeds; principal collects funds from drink machines and janitor collects funds from snack machines but the receipts and items purchased show that all of the drink machines were losing over \$1000 per month while all of the snack machines were generating an expected 40% profit; janitor stocks drink machines and principal removes funds from machines that all lose money.)

Examples of #2:

- a) "Borrowing" funds by taking advantage of the fact that the bank balance is usually different from the book balance and reporting the missing funds as "deposits in transit".
- b) Cashing personal checks from cash collected and depositing the check months later.
- c) Intentional posting errors to wrong activity accounts.

Examples of #3:

- a) Collecting travel reimbursement for expenses that were not incurred.
- b) Paying for personal expenses with school funds. (Viagra and motel rooms; tennis shoes for boys basketball that are in sizes for ladies and toddlers; new tires for lawn tractor that are the size for a pickup truck; casino buffet; digital camera that only had pictures of the principal's family members in memory; lawn mower for school that had a contract for regular commercial lawn mowing service.)
- c) School credit card used for unauthorized purchases.

Examples of #4:

- a) Federal Programs bookkeeper is allowed to mail checks that she originated to phony vendors that had names just slightly different from the name on the invoice.
- b) Travel checks are returned to employee that processed travel reimbursements who then deposits them in her own bank account.
- c) Checks are returned to the accountant that generated the checks who alters the payee on the check.

Examples of #6:

- a) Employee purchases excessive number of items that are actually for his business clients. (Maintenance supervisor purchased air conditioners for his A/C business partially because school system did not require work orders signed by the principals; maintenance worker doubled the amount of lumber and other maintenance materials needed for school projects; invoices could not be verified with purchase order description for maintenance materials because invoices used part numbers or item numbers instead of item description; bus shop purchased 7 engines but 5 of the engines were smaller than the bus size engines; bus shop purchased 53 batteries and 75 spark plug sets in one school year for a 38 bus fleet; assistant superintendent, who was also a painting contractor, authorized invoices for paint in colors that were not used in any schools.)
- b) Employees who also have a business are allowed to purchase items related to that business. (Career tech instructors, maintenance workers, lunchroom managers that also cater events.)

Examples of #7:

- a) Payroll accountant and CSFO receive unauthorized overtime payments.
- b) Payroll clerk changes withholdings to increase take-home pay.
- c) CSFO submits pay claims for substitutes who did not work that month and deposits checks in her own account.
- d) Assistant superintendent approves payroll payments to mistress in St. Louis.
- e) Principal approved payroll for bus driver but allowed the bus driver's husband, a retired bus driver, to actually drive the bus.
- f) Superintendent allows coach's wife to be paid as a janitor when she never worked because the coach and their children were allowed to clean the school at night.

Recent School Theft Case

The employee was the bookkeeper of a local school who had been in that position for over 20 years. An audit by State Examiners showed some discrepancies between the teacher's receipt book and the master receipt posted to the computer. The employee was placed on Administrative Leave and our Superintendent called for a full audit of the schools receipts, starting with the current school year and going back until a clean year was found.

The audit found that receipts in excess of \$21000 could not be traced to the bank. Apparently, whenever a teacher would turn in receipts that included cash, the bookkeeper would sign off on the teacher's receipt sheet, but would receipt and deposit a different amount on the school's books. In most cases, she was not giving the teacher a receipt at all. In cases where (I'm assuming) the teacher kept a close eye on her account, I found doctored receipts placed in the teacher receipt book. Fund raisers were almost always shorted. Again, the teacher receipt book would have an amount, for instance \$1500, written in it. The bookkeeper would sign verifying the amount, but the receipt written in the school Master Receipt book & the amount deposited with the bank, would be \$1000.

Activity Detail reports showing all receipts and disbursements for a particular period are supposed to be given to the teachers periodically. She was not doing this. When a teacher or sponsor would ask for a report, or for help understanding the balance in their account, she would instead give them the Activity Summary report, which summarizes everything by journal code, and would totally confuse the average teacher. Another tactic she used was to delay giving them reports for so long that they eventually forgot about it or gave up. The bookkeeper had apparently had a lot of personal and health issues for several years which generated sympathy and caused people to "hate to bother" her.

Something that turned up after the receipt audit was finished was missing receipts. Teachers came forward requesting purchase orders to spend grant money. They had the award letter showing the amount of the grant, but no receipt was found on the schools books. We requested a copy of the check from the organization who provided the grant and it showed that it was deposited into the school account. This indicates that she probably had a deposit with enough cash to cash out the check, which she then kept. We are now requesting copies from the bank of all deposits, so we can search for other "cashed out" checks from outside organizations. For example, commissions for pictures or donations from individuals.

Central Office is now performing unannounced monthly audits of all local schools which will be more in depth than previous internal audits. Ironically, the last time this particular school was audited by Central Office, the month selected for audit was clean. Monthly audits, without allowing the bookkeeper to suggest which teacher's receipts to pull should prevent any further incidents from happening.

Maintenance Theft

The maintenance supervisor authorized the purchase of 503 air conditioner/heater units over a seven year period for a total amount of \$397,841.19. Of the 503 units, 133 were actually located at various personal and business locations other than the Board. The total cost of the located units was \$108,587.83. This amount was charged directly to the former employee and certified by the Examiners of Public Accounts to the District Attorney for collection. It is part of the over \$164,000 that was ultimately determined to be due to the Board.

The maintenance supervisor had been permitted to authorize purchases and sign off on invoices for payment without any other method of internal control or oversight in place. His requisitions passed to central office bookkeeper and then to the superintendent for approval. The central office bookkeeper responsible for processing maintenance paperwork changed three times during the seven year period. So each one never really knew what the previous others had processed. Often the requisitions and invoices did not reference the type of items purchased but indicated part or item numbers only. Bookkeeping staff did not question what the item was or where it was to be used. No one at the location (school) where the installation supposedly took place signed off acknowledging the receipt of units on their campus. The superintendent signed everything with a trusting attitude.

Also identified in the audit of invoices were other purchases that appeared to be for personal use. Items such as exhaust fans, ceiling fans, water heaters, shower rods, dryer hoses, ceiling tiles, plumbing supplies, fencing, water sealant and small tools. The total of these items was \$119,577.95. However, there was not enough evidence that would prove where all of the items were or were not used.

Currently, the maintenance supervisor reports to the Director of Operations, which was a position created shortly after the discovery of the theft. This provides an oversight of all aspects of maintenance and transportation expenditures. The school system now takes a much more pro-active approach to heading off any potential occurrences or the appearance of any fraud. Requisitions and invoices require the supervisor and director signatures before they are presented to the superintendent. Bookkeeping staff members have been made aware of the types of fraud that can occur and are provided training to help recognize issues that may arise. They are encouraged to ask questions about any requisition or invoice and required to report any concerns to the CSFO or Superintendent. Given the fact that the theft created such a scar on the activities of the school system, employees (especially the current maintenance supervisor) are aware that any and everything is subject to question at any time by anyone from the bookkeeper to the Board members.