



Create a Footprint of
Anti-Fraud Controls

Session Leaders

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Shelby County Public Schools, Kentucky

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



Session Leaders

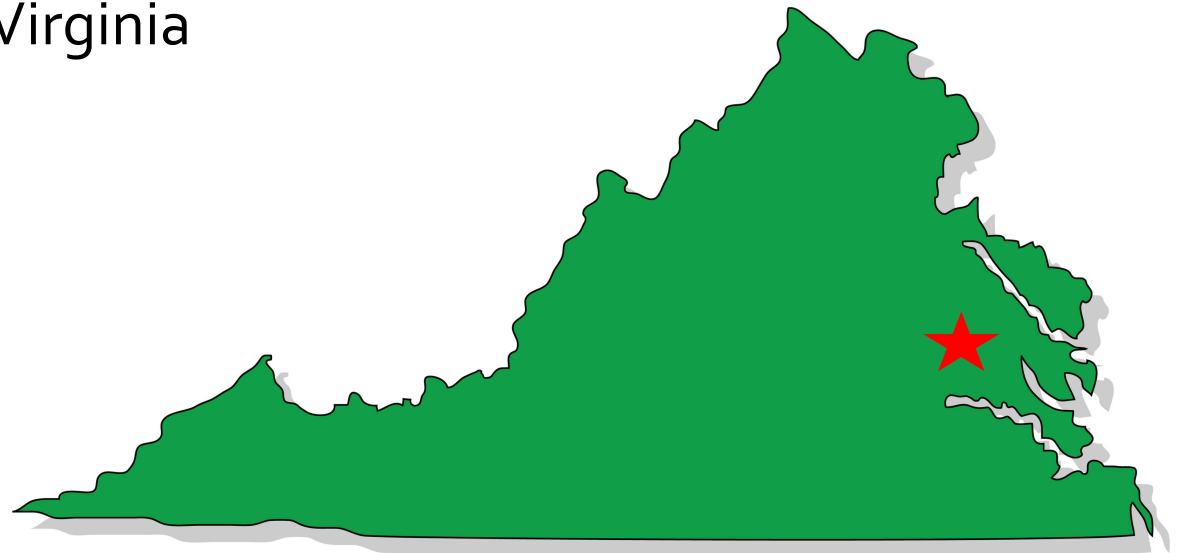
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Director of Budget & Finance

King William County Public Schools, Virginia

slongest@kwcps.k12.va.us

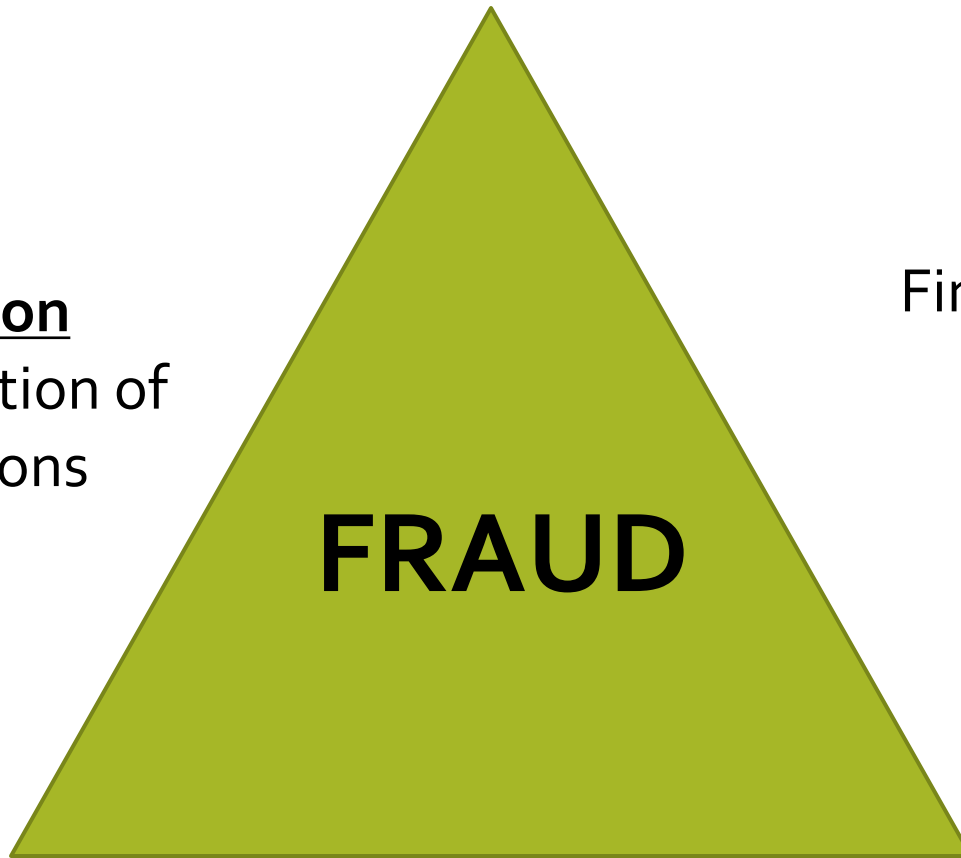
- Approximately 2000 students
- About 415 contracted employees
- 4 schools & 2 Alternative School



Stand Up, Sit Down

- Stand Up IF:
 - You require an approved Purchase Order before committing funds
 - You verify the bank reconciliation is properly completed each month for all your schools
 - You require direct deposit changes be made in person (jump up and down if you also require a canceled check from the account)
 - You have someone other than the accounts payable clerk creating and maintaining vendors
 - You solicit tips relating to potential fraud
 - You require two people when using tickets for a gate (wave your arms in the air if you have eliminated cash at gates)

**WE CONTROL
THE
OPPORTUNITIES
THROUGH
INTERNAL
CONTROLS**



Rationalization

Personal justification of dishonest actions

Incentive

Financial or emotional force pushing toward fraud

Opportunity

Ability to execute plan without expectation of being caught

**EVERYONE
MIGHT STEAL.**

*Good people make
bad decisions in
tough
circumstances.*



Even a Bhuddist Monk Will Steal

- Stole \$263K from his Temple in Louisiana
- He was the presiding monk from 2010 – 2014
- Had access to 3 accounts from which he withdrew funds, sometimes returning funds
- Gambling problem
- Sentenced to 30 months in prison

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

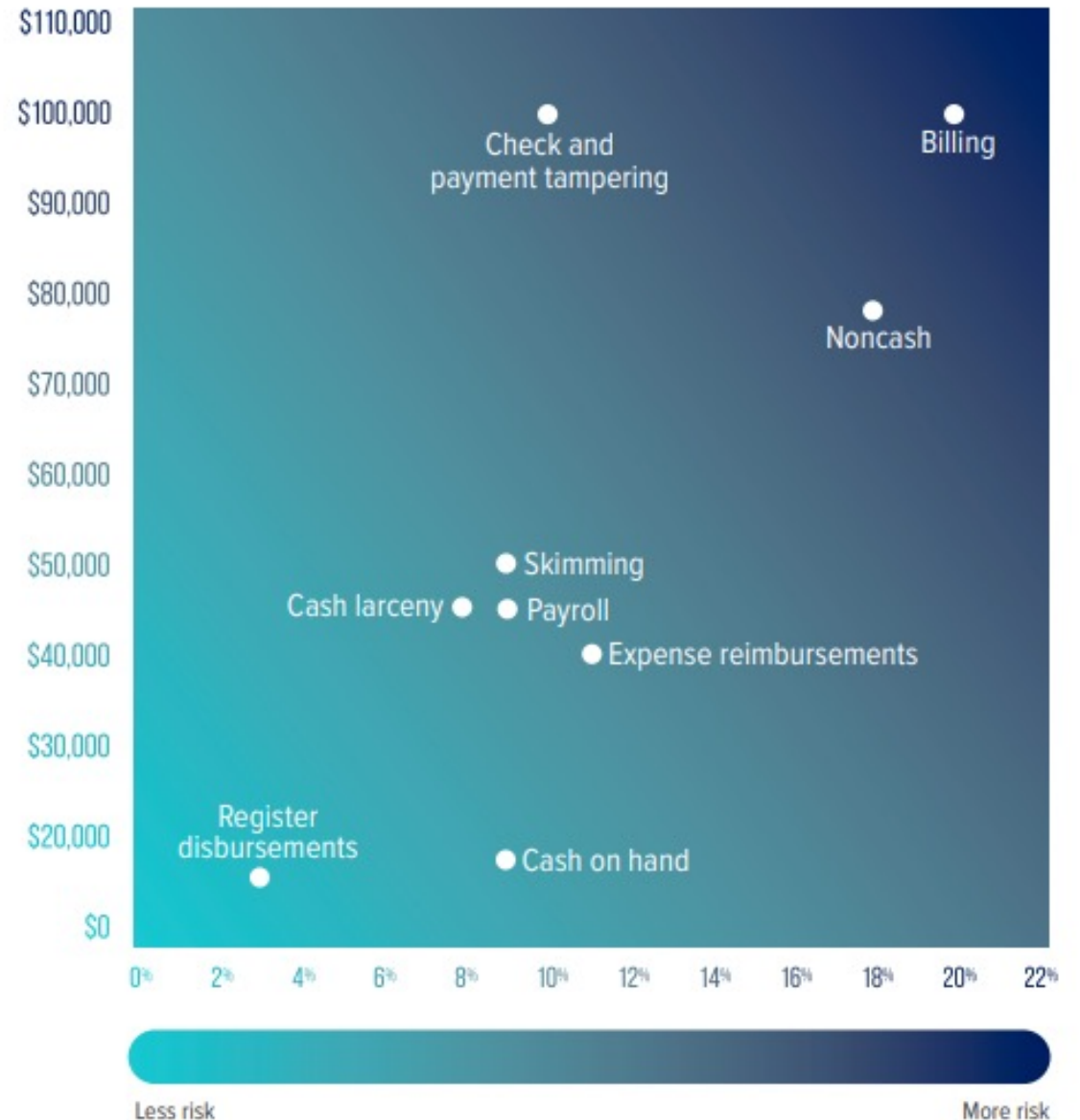
- **Preventive** controls – stop something bad from happening before it occurs
- **Detective** Controls – identify something bad after it has occurred

Asset misappropriation is the most common scheme

These sub-schemes pose the greatest risk

Category	Number of cases	Percent of all cases	Median loss
Billing	416	20%	\$100,000
Noncash	385	18%	\$78,000
Expense reimbursements	232	11%	\$40,000
Check and payment tampering	208	10%	\$100,000
Cash on hand	199	9%	\$15,000
Skimming	198	9%	\$50,000
Payroll	198	9%	\$45,000
Cash larceny	169	8%	\$45,000
Register disbursements	58	3%	\$10,000

FIG. 5 WHICH ASSET MISAPPROPRIATION SCHEMES PRESENT THE GREATEST RISK?



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Check and Payment Tampering



The accounts payable clerk cannot also create/edit vendor records; segregation of duties



Require W-9, phone number, google some



Never pre-sign checks or use signature stamps



Control the check stock



Void check procedure



Rounded invoice amounts; amounts just below thresholds; acronym payees



Remit address/account changes; including ACH and ACI

TOP 5 CONCEALMENT METHODS USED BY FRAUDSTERS



39%

Created fraudulent physical documents



32%

Altered physical documents



28%

Created fraudulent electronic documents or files



25%

Altered electronic documents or files



23%

Destroyed or withheld physical documents

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CONCEALMENT BY POSITION



48%
of executive-level perpetrators
DESTROYED evidence.



61%
of managers **CREATED**
fraudulent evidence.

False Documents, Destroying Documents

- This will impact the effectiveness of our detective controls
- Internal and external risk
- Require original documents
- Principal receives the bank statement first

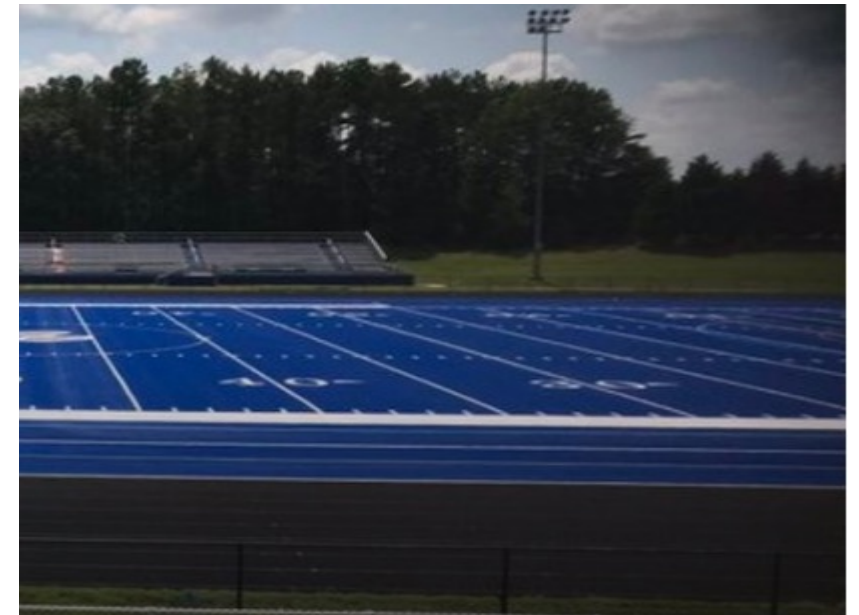
Email Scam- Spotsylvania County Public Schools

- Bogus invoice by email from contractor
- Courtland High School- new football field
- \$600,000 lost
- Ensure email matches website and contact information
- Check for misspellings in emails

• <https://usatodayhss.com/2019/va-high-school-600-field-phishing-scheme>

USA TODAY

Virginia high school official had \$600,000 football field fund stolen in phishing scheme



EXTERNAL Fraud Attempt – KY

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.

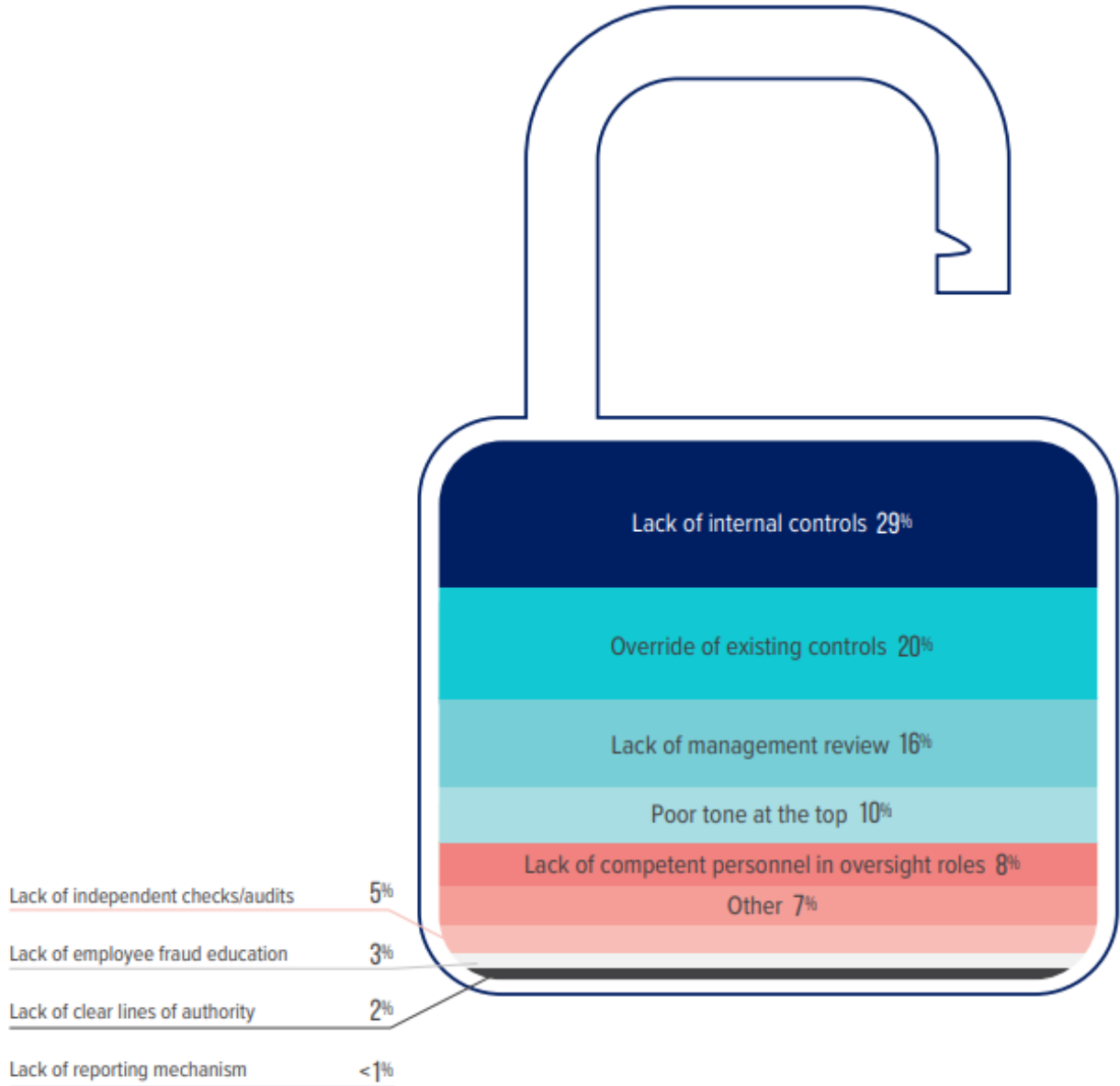
Thank you.

 | Tierney | Collections Specialist

EXTERNAL Fraud Attempt – KY

- **How do we prevent this sort of thing from happening?**
 - District personnel verify remit changes with the vendor contact

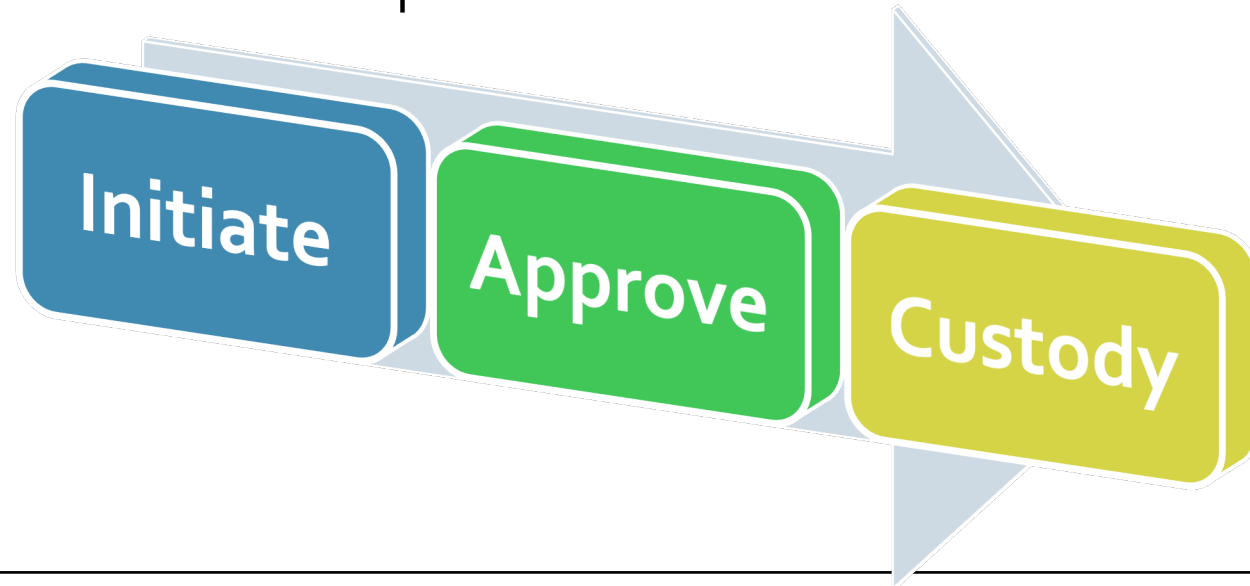
FIG. 29 WHAT ARE THE PRIMARY INTERNAL CONTROL WEAKNESSES THAT CONTRIBUTE TO OCCUPATIONAL FRAUD?



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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



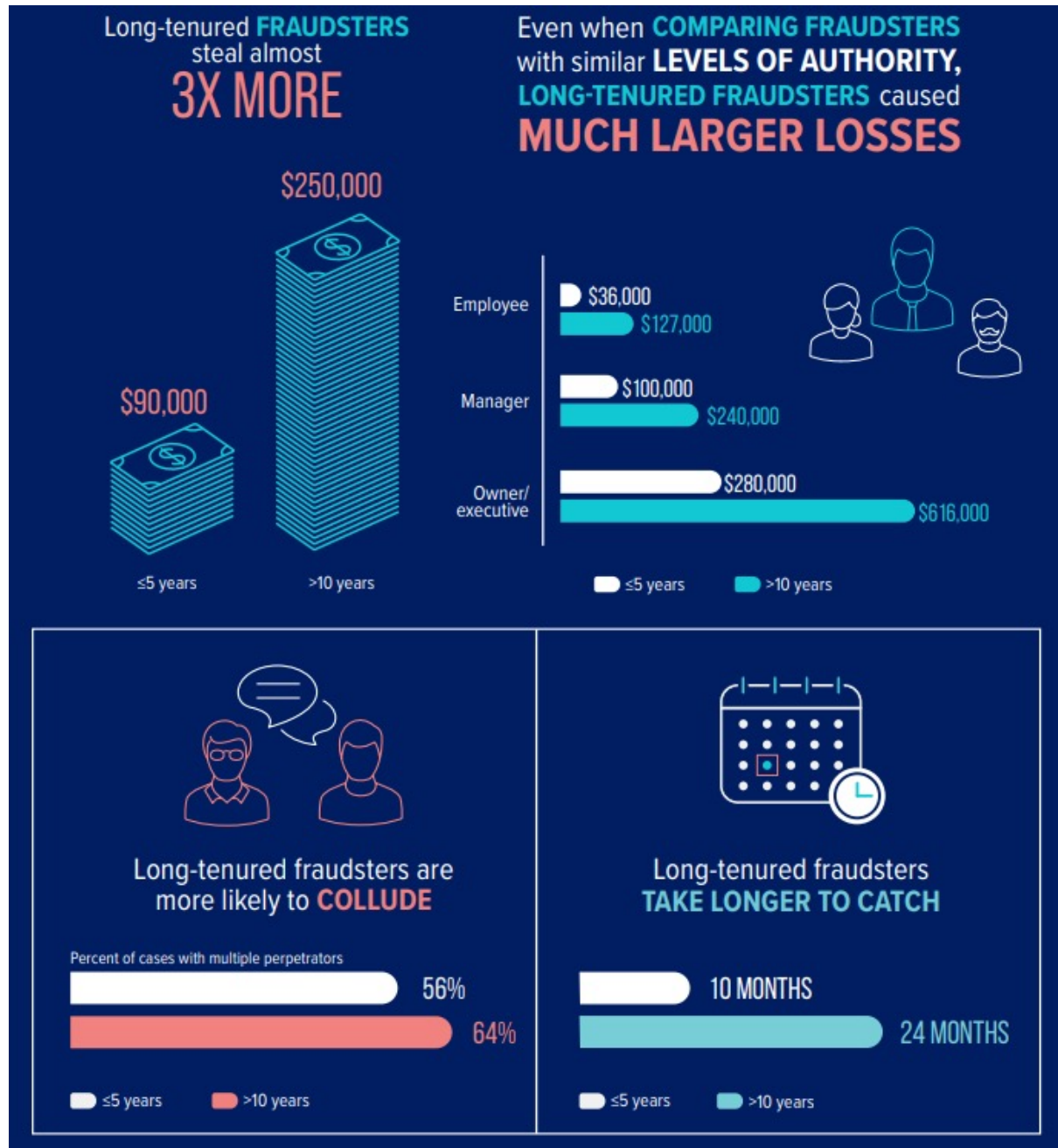
**TRUST IS NOT
AN INTERNAL
CONTROL**

FIG. 33 HOW DOES THE PERPETRATOR'S TENURE RELATE TO OCCUPATIONAL FRAUD?



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TRUST BUT VERIFY



Verification Strategies

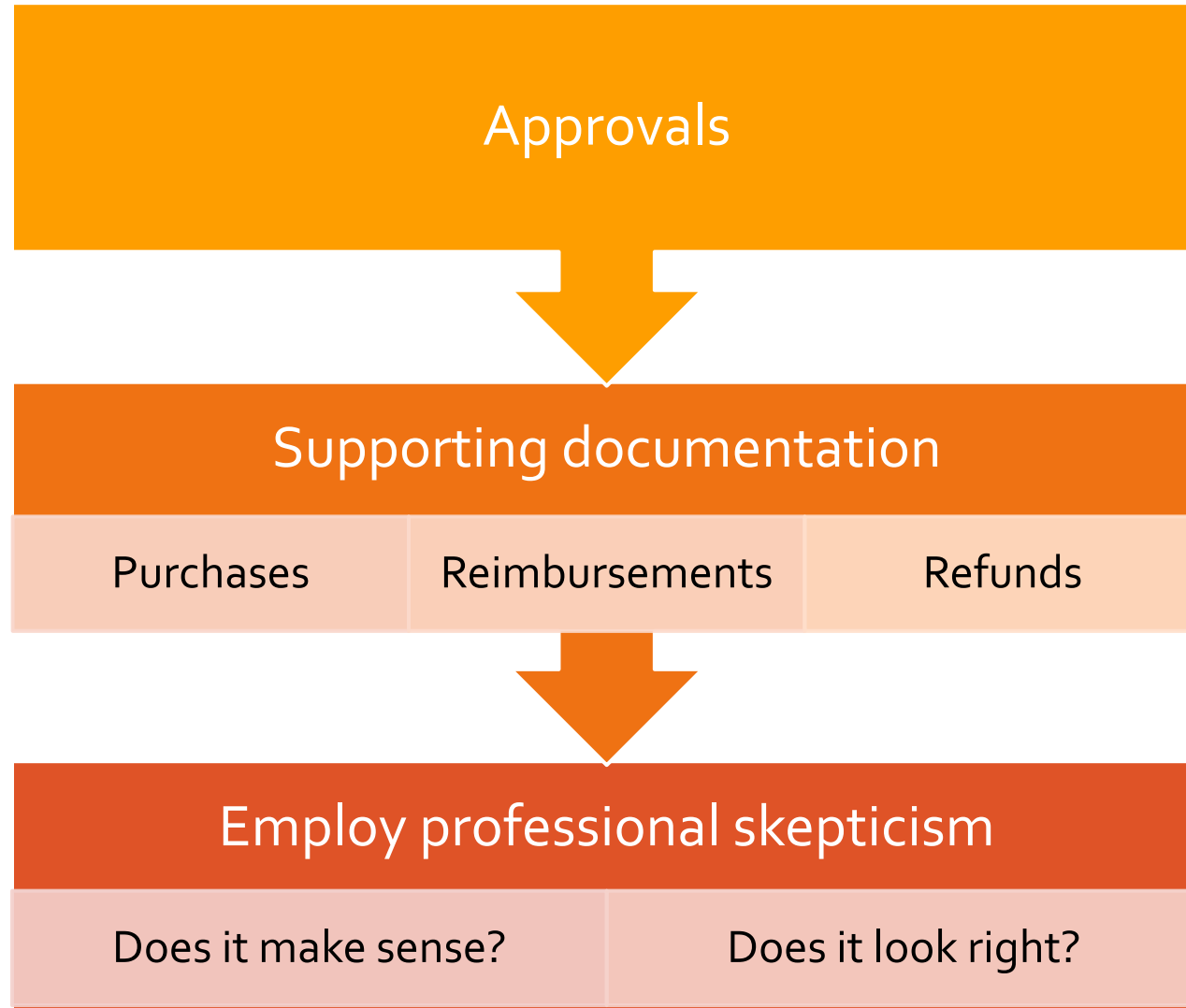


FIG. 44 HOW OFTEN DO PERPETRATORS EXHIBIT BEHAVIORAL RED FLAGS?



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8 KEY WARNING SIGNS

85%

OF ALL FRAUDSTERS
displayed at least one
**BEHAVIORAL
RED FLAG**

These are the 8 most common behavioral clues
of occupational fraud. **At least one of these
red flags** was observed in 76% of all cases.



39%

Living beyond
means



25%

Financial
difficulties



20%

Unusually close
association with
vendor/customer



13%

Control issues,
unwillingness
to share duties



12%

Irritability,
suspiciousness,
or defensiveness



12%

Bullying or
intimidation



11%

Divorce/family
problems



10%

"Wheeler-dealer"
attitude

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Red Flags

How can we use this knowledge to design better internal controls?

- Require cross training
- Require mandatory vacations for key positions
- Bond key positions; background checks
- PO approvals
- Observation, awareness

Check Fraud- King William, VA

WARNING: THIS DOCUMENT HAS SECURITY FEATURES IN THE PAPER

- Check cut to Dominion Power, Electric Services
- It was washed and submitted thru Mobile Deposit
- After a check fraud back in May 2023, put positive pay in place.
- Treasurer & KWCPs staff review every check for payment

KING WILLIAM COUNTY PUBLIC SCHOOLS
KWCPs
18548 King William Road
King William, VA 23086

PRIMIS BANK
20 Commerce Lane
King William, VA 23086
68-438/514

NO. 33775

VOID AFTER 180 DAYS

DATE ISSUED
02/02/24

CHECK NO.
33775

CHECK AMOUNT
\$*****38,889.28

Thirty Eight Thousand Eight Hundred Eighty Nine AND 28/100 Dollars

TO THE ORDER OF:
Angelique Velasquez
437 Manor Rd Apt 10
Newport News, VA 23608-3635

Amber M. Ditchers

CLERK
Amber M. Ditchers

CHAIRMAN

Abel N. Carlton

TREASURER

- Has occurred to at least 5 other school districts in VA since the Fall 2023.
- King William never lost funds; without processes in place this could have had a different outcome.

FIG. 22 WHAT ANTI-FRAUD CONTROLS ARE MOST COMMON?



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FIG. 10 HOW IS OCCUPATIONAL FRAUD INITIALLY DETECTED?

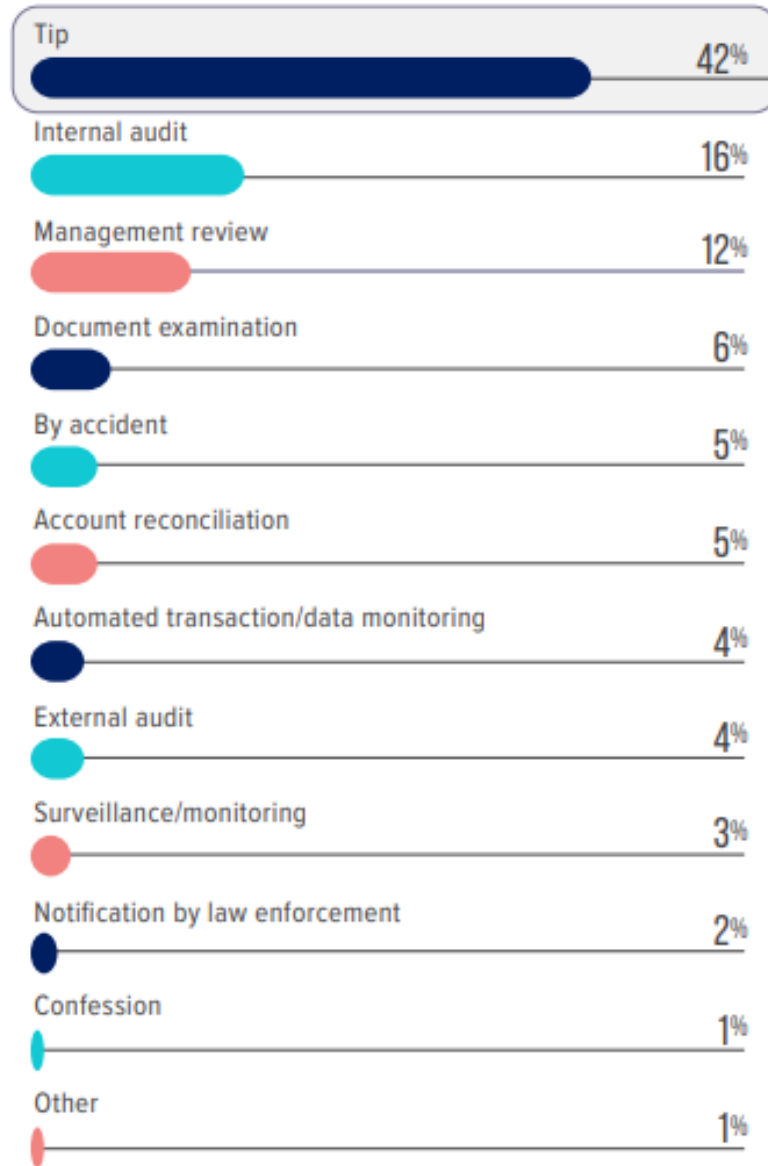
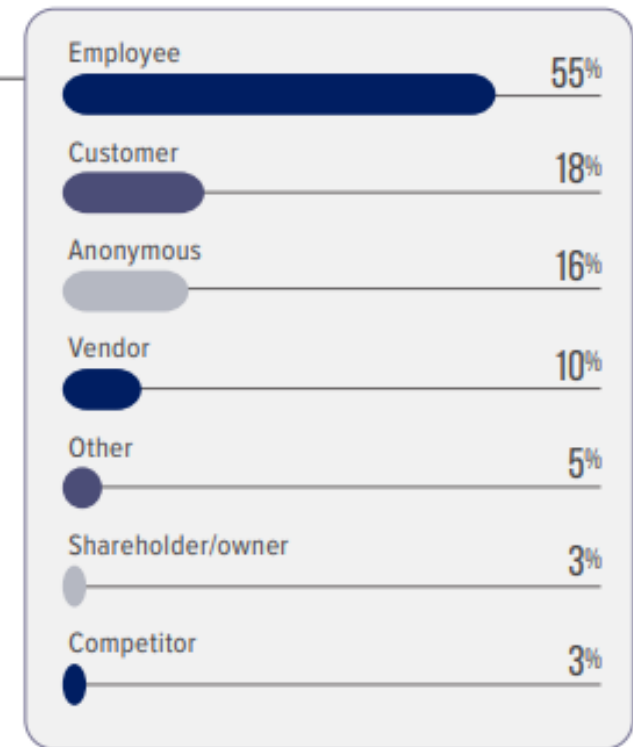


FIG. 11 WHO REPORTS OCCUPATIONAL FRAUD?




42% of frauds were detected by tips, which is nearly **3x** as many cases as the next most common method.

More than **HALF** of all tips came from employees.



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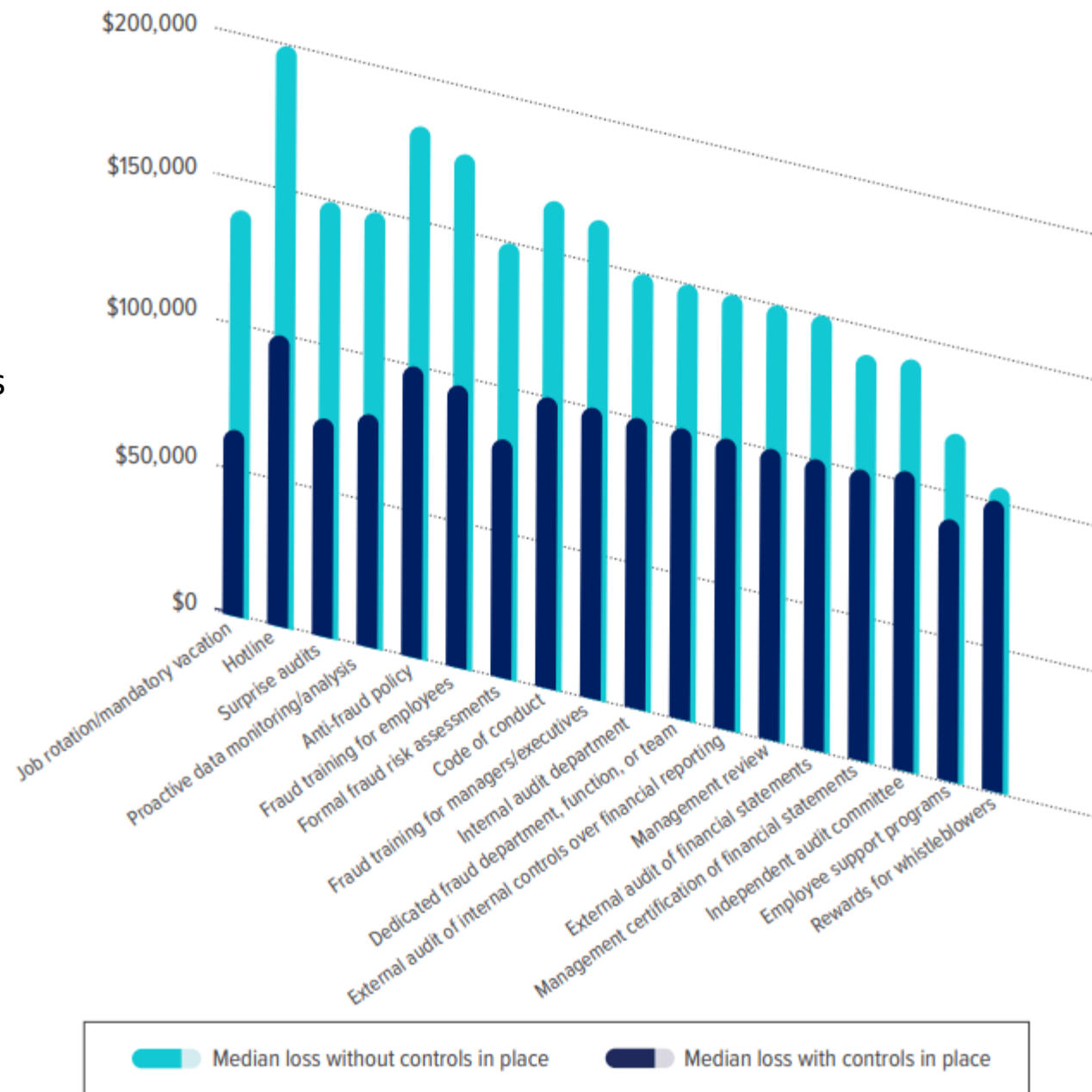


**The annual audit is not intended to
uncover fraud**

Most effective controls:

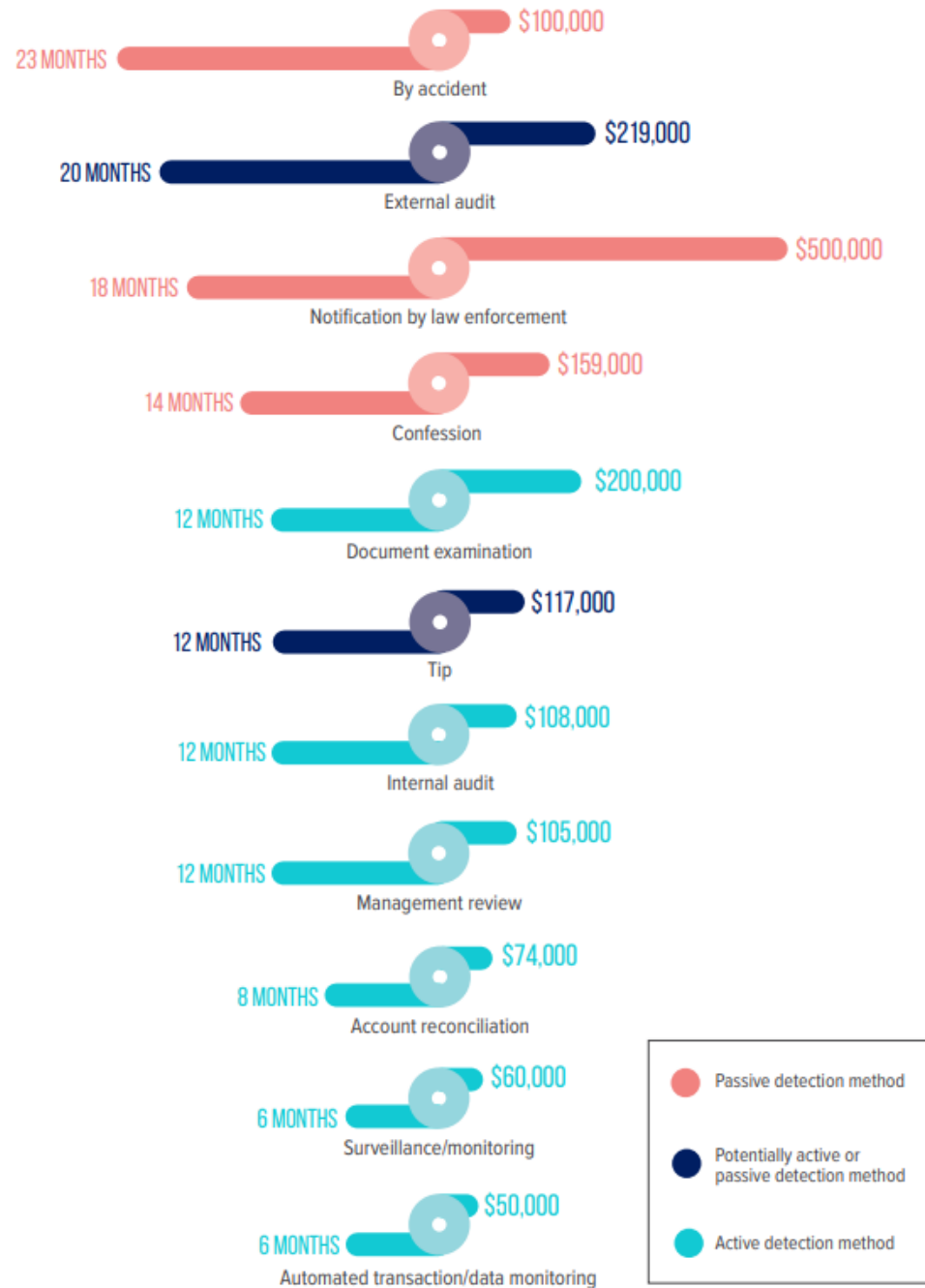
- Job rotation/mandatory vacation
- Hotline
- Surprise audits
- Proactive monitoring/analysis

FIG. 23 HOW DOES THE PRESENCE OF ANTI-FRAUD CONTROLS RELATE TO MEDIAN LOSS?



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From the 2022 Report to the Nations
Association of Certified Fraud Examiners





A Kentucky finance officer steals \$1.6 million over 8 years



Created fictitious invoices to legitimate vendors, including construction vendors



Checks were altered to change the payee name to her own



Munis (financial management software) would show a legitimate vendor as the payee



A bank employee questioned a suspicious deposit

Accounts Payable Fraud – KY

Accounts Payable Fraud – KY

- **How do we prevent this sort of thing from happening?**
 - Purchase orders must be required (for almost everything!)
 - Do not share user IDs and passwords
 - Printed checks stay in the safe until mailed
 - Bank reconciliation process with an independent reviewer

Accounts Payable Fraud – The Outcome

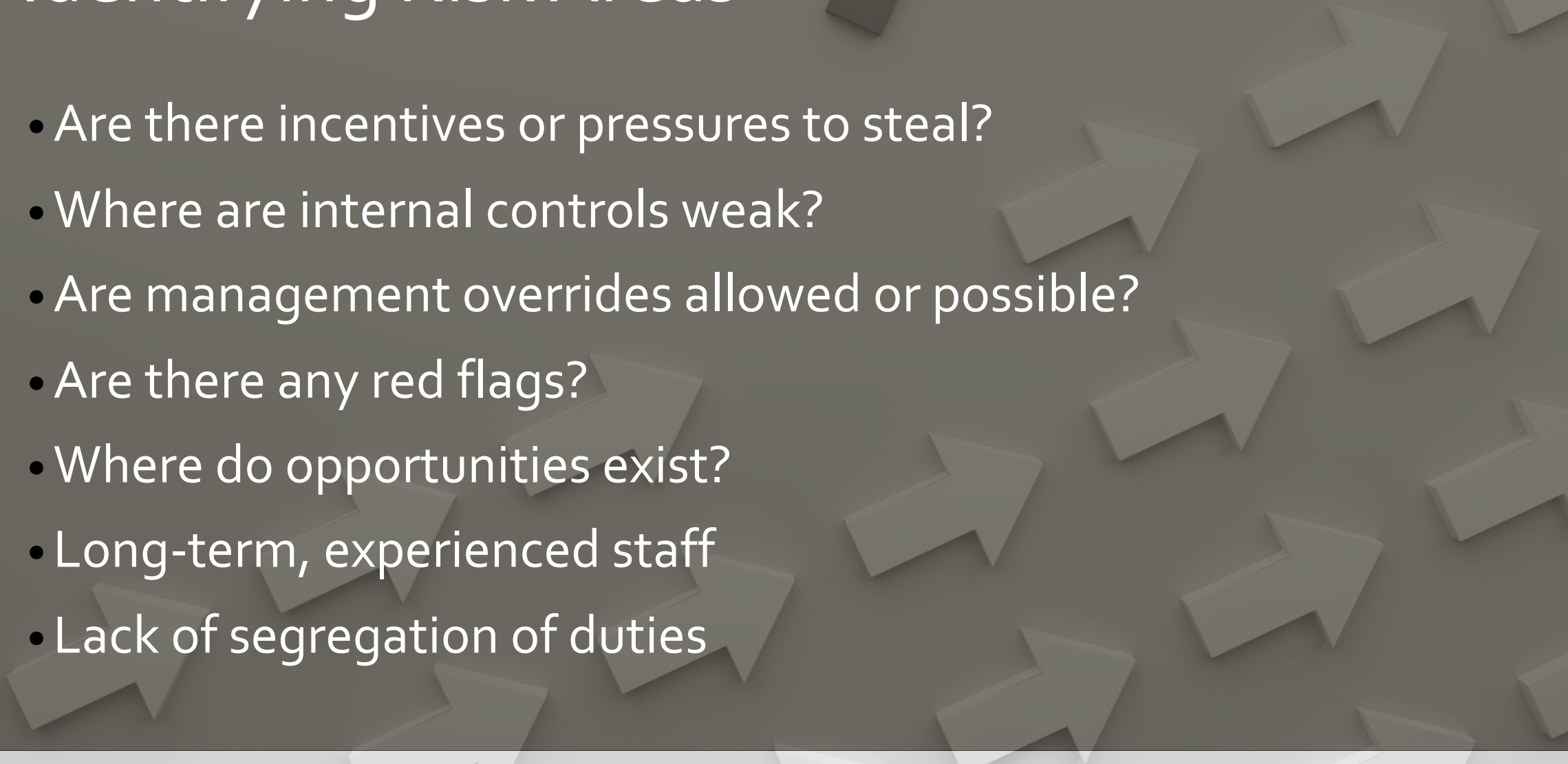
Sentenced to 5 years (Federal
court)

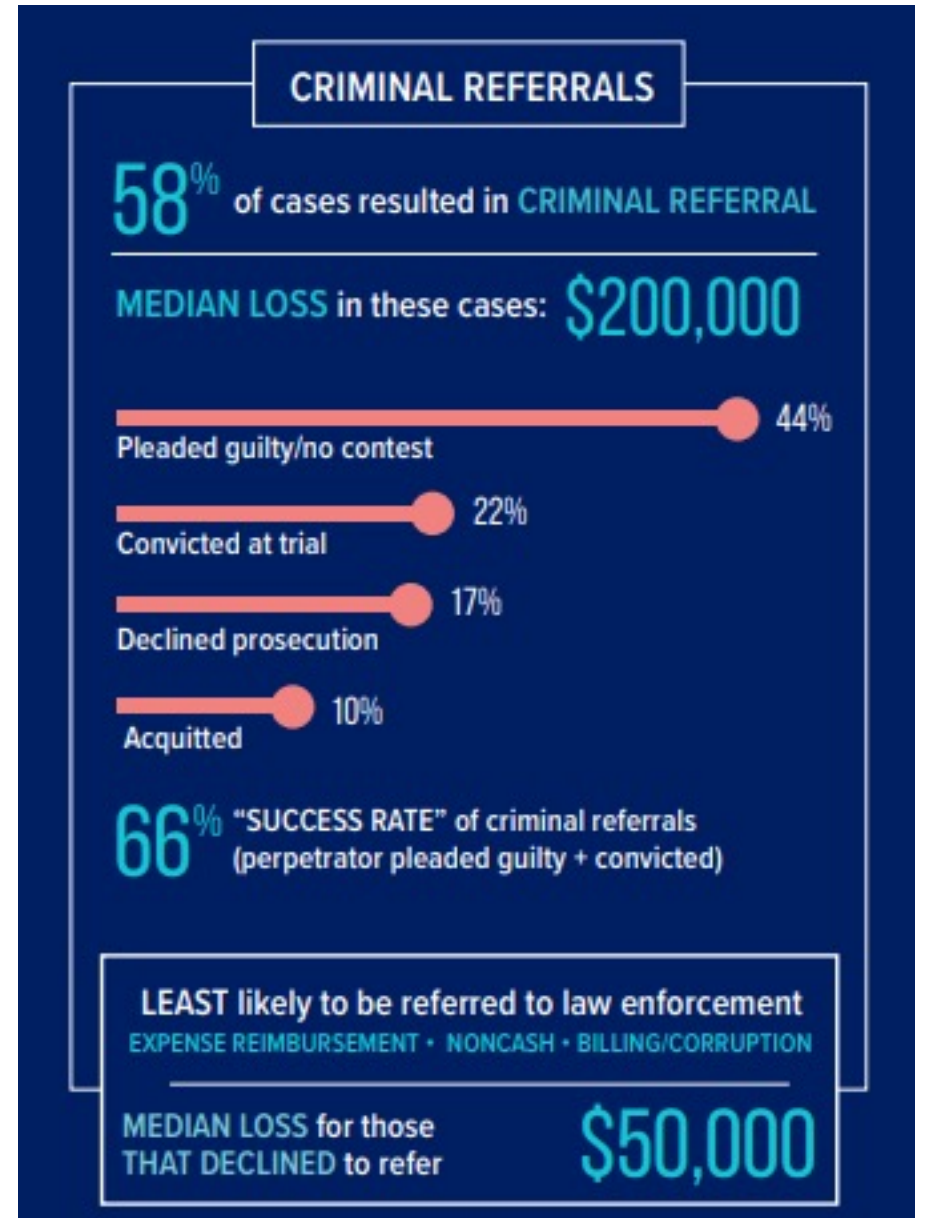
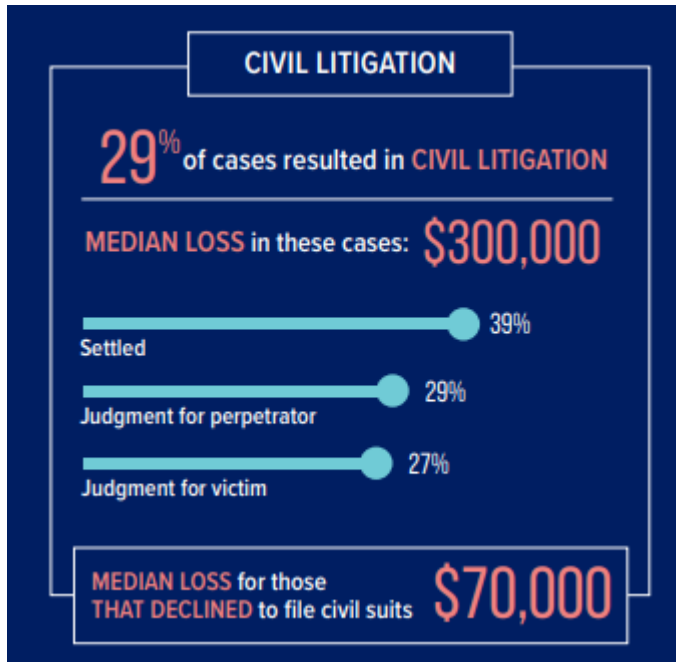
Must serve 85%

3 years probation after release

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
- 

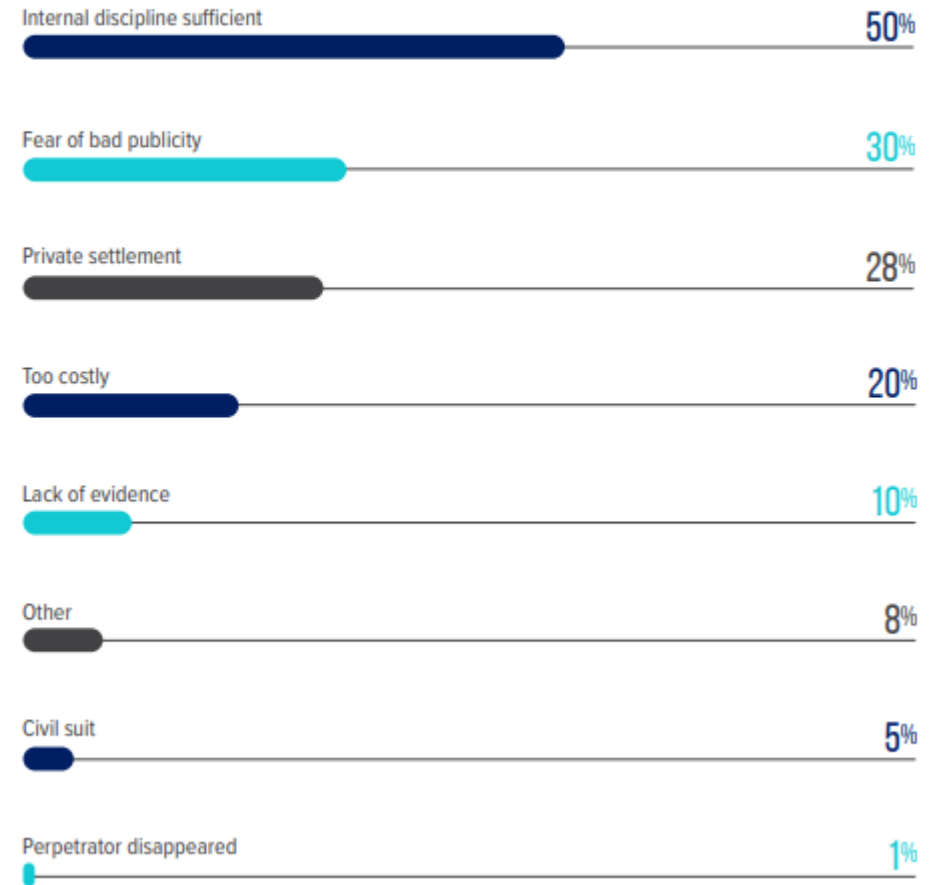


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FIG. 48 WHY DO ORGANIZATIONS DECLINE TO REFER CASES TO LAW ENFORCEMENT?





of victim organizations
DID NOT RECOVER
any fraud losses.

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Key Takeaways

- Recognize fraud can happen in your district
- Create segregation of duties and internal controls
- Tone at the top
- No management overrides
- Periodic job/task rotation
- Fraud training
- Invite tips, even anonymous ones
- Don't throw away protocol because of friendships or trust
- Take action if fraud is discovered



THIS WAS
FUN!

I'm Gonna
Create Some
Controls!

Woo
Hoo!