

FRAUD FOLLIES IN SCHOOL DISTRICTS



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What do you see?



Agenda

- ✓ Some forms of Fraud in school districts
- ✓ Indicators of Fraud – “Red Flags”
- ✓ What to do for prevention

Introduction

- ➔ What is fraud?
- ➔ Who is involved?
- ➔ How is it found?
- ➔ What can we do to prevent it?



Overview

- Fraud is a crime
- Laws address different types of fraud
 - Contracts
 - Insurance
 - Others





ACFE

Occupational fraud--

The use of one's occupation for personal enrichment through the deliberate misuse or misapplication of the employing organization's resources or assets *

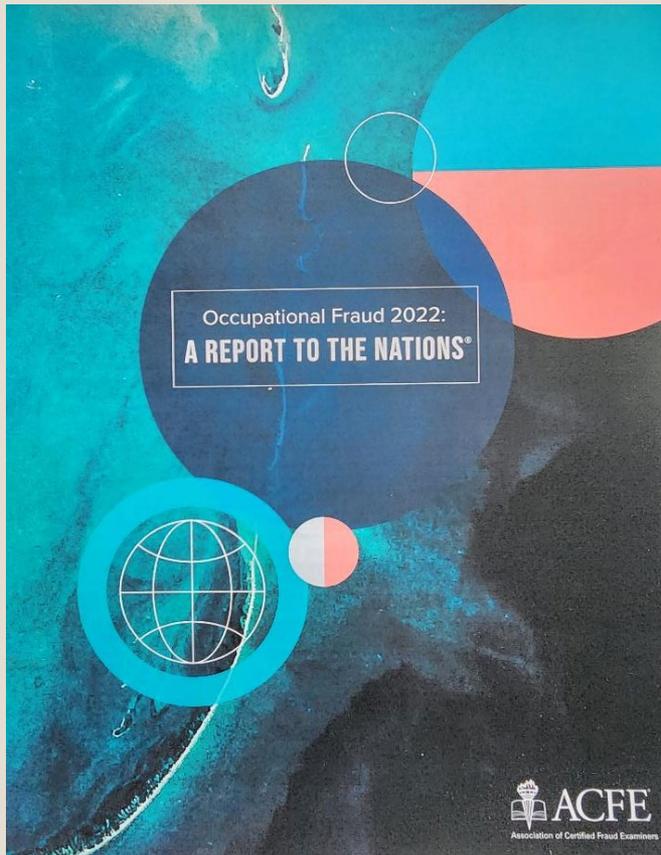
* Occupational Fraud 2022: Report to the Nations © 2022

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More than 90,000
members worldwide

More than 190
chapters worldwide

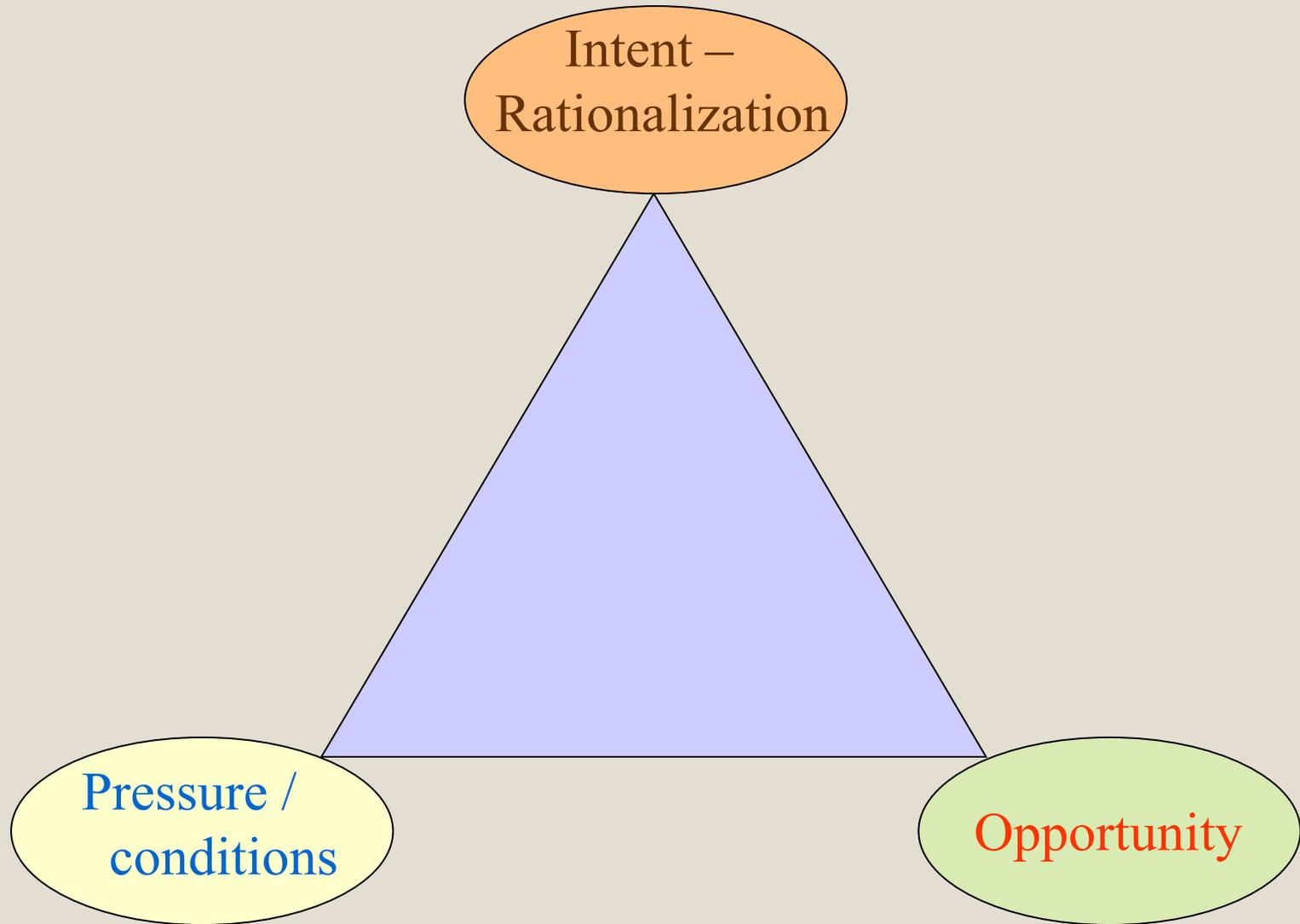


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Elements of Fraud



Indicators of Fraud

Some “Red Flags”



- ★ Borrowing small amounts of \$\$\$
- ★ Unauthorized IOUs
- ★ Rewriting records under the “neatness” guise
- ★ Bragging about exploits
- ★ Refusing vacations/promotions
- ★ Living beyond means
- ★ Getting annoyed at reasonable questioning



Some School District Operations Exposures



- Contracts
- School Internal Accounts
- Administrative functions



CONTRACTS

Contracts

- Building / Construction
 - School construction
 - Renovation construction



Services



- Audit services – external firms
- Legal services – defense of lawsuits
- Teaching
- Testing
- Custodial
- Consulting

Contract “Red Flags”

- ❏ Providing the contractor with information/advice on a preferential basis
- ❏ Specifying sole source for a specific contractor
- ❏ Allowing consultants who assisted in the statement of work to bid
- ❏ Splitting costs into separate categories to avoid review or audit
- ❏ Writing contract specifications inconsistent with past similar procurement
- ❏ Numerous Change Orders

Case

Paving contractor increased contract costs through many change orders; falsified documentation on certain services and double claimed damages against school board and city for idle equipment.





Building Battle Heading to Court

**Both the School Board and The City Want to File
Countersuits**

Steps for prevention

- Audit clause in contract
- Careful monitoring of services
- Segregation of duties
- Reject late bids
- Perform cross exams of vendor/employee addresses





SCHOOL INTERNAL ACCOUNTS

What are Internal Accounts? *

Internal Accounts are a system of accounts used to track financial transactions for school activities



* Also known as Local School Funds, Internal Funds, Student Activity Funds, Principal Funds

Comparison of Internal Account Classifications



Gwinnett County Public Schools

Athletics

Student Services

Community Services

General Funds

Student Instruction

Maintenance & Operations

Professional Development

Grants

Media

Flow-Through

Scholarships



Florida

Leon County Schools

Athletics

Music

Classes

Clubs

Departments

Trust

General

Relationship to Other District Operations

Leadership

- **Discipline**
- **Teaching Techniques**
- **Curriculum**
- **Staff Development**

Management

- **Finance**
- **Purchasing**
- **Payroll**
- **Internal Accounts**
- **Leave**
- **Food Service**
- **Maintenance/facilities**
- **Transportation**

Vulnerabilities

- Untrained personnel
- Lack of school management oversight
- Insufficient funds for program implementation
- Lack of segregation of duties
- Lack of internal controls



Some Forms of Fraud

- ★ Pilfering Stamps
- ★ Stealing equipment
- ★ Manipulation of collections of accounts
- ★ Unauthorized use of credit cards/funds
- ★ Failure to make timely bank deposits
- ★ Alteration/falsification/destruction of documentation



“Red Flags” in Internal Accounts

- ▶ Altered/missing documentation
- ▶ Untimely deposits
- ▶ Diverting receipts
- ▶ Insufficient segregation of duties
- ▶ Non-compliance with established rules and regulations
- ▶ Fictitious vendors

Case



- School bookkeeper sold candy as a school fundraiser for personal gain
- Over \$6,200 missing from collections at school – cash substituted with checks

CASE



- School District's Financial Operations personnel found first irregularity in performing bank reconciliation process
- Surprise cash count and interview of high school bookkeeper - \$1,000 short
- Many months of investigation
- Audit special investigative report issued – potential loss of \$131,410.22 over 18 months reviewed
- Bookkeeper was arrested for felony theft by conversion - 18 counts
- SENTENCE: 20 yrs probation; 3 yrs house arrest w/electronic monitor; restitution of \$90,000; \$1,500 fine; attorney fees and other costs

What to do for Prevention

Provide:

- Training to persons handling funds
- Segregation of duties
- Improved oversight of functions
- Guidance for operations - policies and procedures





ADMINISTRATIVE OPERATIONS



School District Administration/Operations

- Transportation
- Food & Nutrition Services - Cafeterias
- Curriculum – Testing, Grades, Teaching
- Human Resources – Teachers & others & benefits
- Finance – A/P, A/R, Investments, Payroll
- Purchasing/procurement
- Risk Management – insurance
- Maintenance – Custodial and others
- Information & Technology Services
- Nurses – health services
- Psychologists – evaluations
- Specialists – speech therapists, para-pro's, etc.
- Safety and security – school resource officers



Some “Red Flags” in Administrative Functions



- Living beyond means
- Change in behavior – irritation at everyday occurrences
- Sense of “entitlement”
- Overriding rules or controls

Cases

- HR Clerk embezzled over \$17,000 over 4 fiscal years from funds meant to cover costs for fingerprinting personnel and training for substitute teachers – substituted cash with checks
- School cafeteria manager took \$2,500 over 3 months for personal drug habit – altered deposits
- School cafeteria manager took funds for personal use – altered deposits

CASE



Atlanta Journal-Constitution



School Scheme Puts Pair in Prison



BAD EDUCATION

HBO movie based on true occurrences

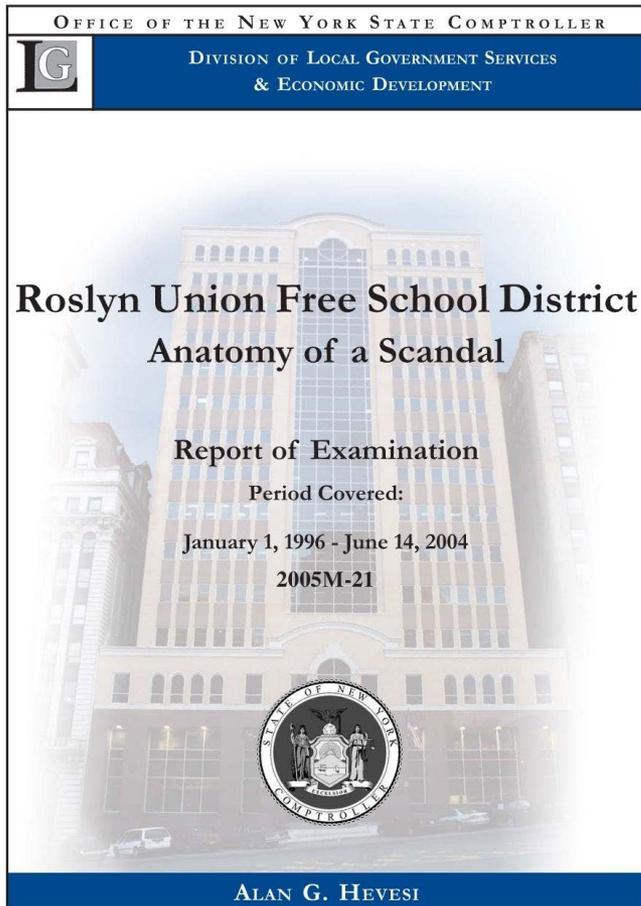
Starring Hugh Jackman and Allison Janney

CASE

Rosalyn School District

OVERVIEW

INDIVIDUALS BENEFITING FROM THE MISUSE OF DISTRICT FUNDS



Pamela Gluckin	\$4,634,012
Frank Tassone	\$2,407,965
Stephen Signorelli	\$892,704
Harvey Gluckin	\$375,059
Deborah Rigano	\$334,452
Marcella Pagnotta	\$270,818
Frances Pertusi	\$222,138
Patricia McCormick	\$122,022
Marilyn Silverman	\$106,822
Madalyn McGovern	\$74,305
Ken Stubbolo	\$46,886
Kim McCormick	\$41,891
Joel Nash	\$25,194
Jayson Stoller	\$16,375
Samuel Masiello	\$15,408
Tara McCormick	\$13,287
John McCormick	\$11,074
Bernadette Burns	\$9,076
David Schoob	\$8,186
Neville Archambault	\$7,925
Thomas Galinski	\$7,277
Elaine Heintz	\$6,862
Cynthia Mullins Simmons	\$6,314
Albert Razzetti	\$6,200
Tom McCormick	\$3,074
Richard McGovern	\$2,170
Ron Magalik	\$1,560
Steven Kaplan	\$1,529
Robert Gluckin	\$506
Not Traceable to an Individual	\$1,580,274
Total	\$11,251,365

Rosalyn School District – cont'd.

EXCERPTS from Executive Summary in Audit Report

We found that more than \$11 million of District funds were used for personal expenses - top-level managers (the Superintendent and Assistant Superintendent) in the District could override the system and process payments outside of the normal flow of most transactions, using hand-drawn warrants.

The Board had abdicated its oversight role and essentially did not monitor the District's financial operations.

The Internal Claims Auditor and the Treasurer, were not doing their jobs to ensure that only appropriate and authorized payments were being made.

The external auditor, the CPA firm that audited the District once a year, had conflicts of interest and performed an audit that was so flawed and so far below professional standards that it failed to identify the millions that were apparently misappropriated.

Other employees in the District, who may have been aware of the apparent misappropriation, benefited in different ways, and so may not have brought the apparent misappropriation to the attention of appropriate outside agencies

The apparent misappropriation of public assets on this scale is shocking. The indications of fraud at Roslyn were a complete violation of the public trust. They illustrate what can happen when oversight boards fail to take their responsibilities seriously, and when those responsible for safeguarding public funds decide to take advantage of their position of trust.

Rosalyn School District – cont'd.

EXCERPTS from Executive Summary in Audit Report

Gluckin was arrested on charges of first-degree grand larceny for embezzling more than \$1 million from the District.

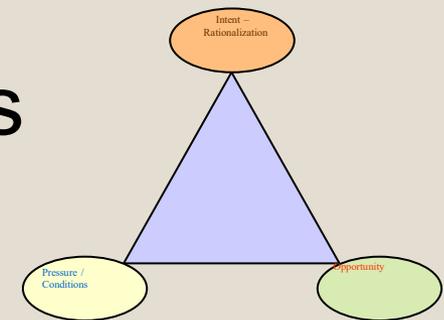
Tassone and District Account Clerk Deborah Rigano, who also is Gluckin's niece, were suspended with pay. They both resigned soon thereafter.

Tassone was arrested on charges of first-degree grand larceny and accused of stealing more than \$1 million from the District.

Rigano was arrested and charged with one count of second-degree grand Larceny for using school funds to pay for her personal expenses.

Fraud Implications in Administrative functions

- Lack of segregation of duties
- Untrained personnel – unfamiliar with requirements
- Personal issues that created pressures
- Opportunity to exploit system weaknesses – system overrides



Results of Fraudulent Activity

- Self reporting / arrest
- Loss of job
- Mounting debts
- Media coverage
- Legal fees
- Restitution
- Loss of reputation



FRAUD IS COSTLY!

Consider the time:

- Spent devising the fraud scheme
- Actively concealing information/documents
- Spent to investigate occurrences
- Prove case and discharge perpetrators
- Locate and train replacement personnel



Steps for Prevention

Management sets the tone - Establishes ground rules

- Code of Conduct/Ethics
- Modes of enforcement
- Internal Auditing function
- Fraud policy
- Fraud awareness training
- Establish fraud/ethics hotline



Steps for Prevention (cont'd.)

Conduct a Review of:

- Remote operations
- Internal controls – are they weak/broken?
- Assets not under General Ledger control
- Changes in management
- Segregation of duties



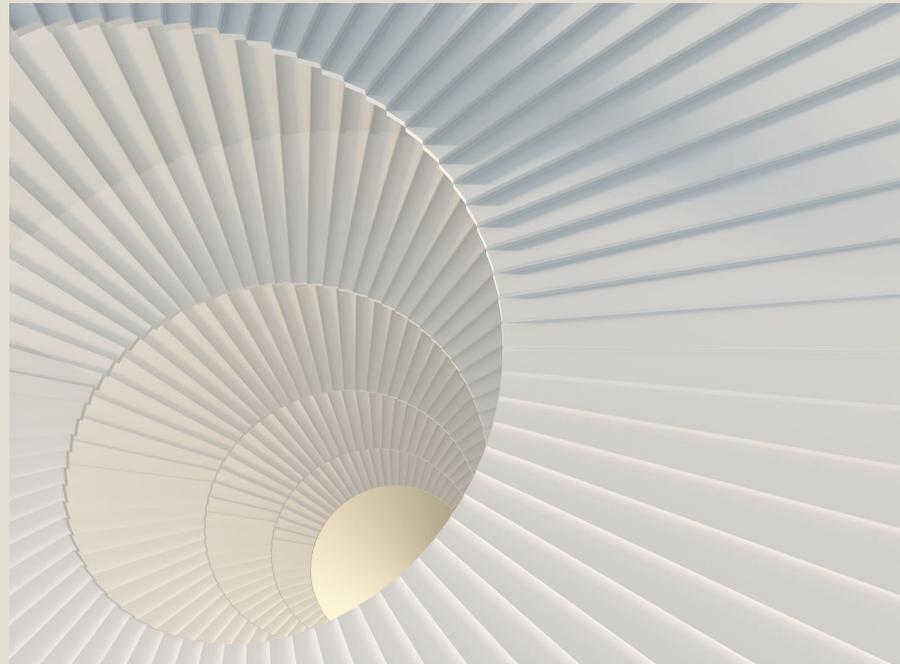
Summary

- ✿ Know the “Red Flags” of fraud - in general and in schools
- ✿ Know the forms of fraud
- ✿ Take charge - put controls in place for prevention



Where to Get More Information

- Other training sessions –ACFE, IIA, MIS Training Institute, USDA, others.
- The web - acfe.com, theiia.org, auditnet.org, misti.org, fightfraud.org
- Dept. of Education
- Consulting services
- Library
- Other school districts



Questions?





Thank you

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