

Be proactive to thwart fraud in your district

The last thing your district needs now is to find it has fewer funds because an employee has helped herself to some cash. But the same economic conditions that are squeezing your district may also be an incentive for an otherwise dependable employee to commit fraud.

Key points

- Economic downturn enhances incentives for fraud.
- Risk assessment points way to block opportunities for fraud.
- Strong internal controls, hotline help prevent losses. ■

A two-income family may now have to make do with just one earner. An ill family member may contribute to household budget problems. Or added duties without added pay could

cause an employee to decide to get back at the district.

You can't control the pressures or incentives that can propel an employee to commit fraud. Nor can you do much about the rationalization a fraudster uses to justify what she has done. But you can do something about opportunity — the third angle of what's dubbed the fraud triangle, said Cherie R. Wright, a CPA and partner with Heinfeld, Meech & Co., in Tucson, Ariz. In fact, opportunity is the only part of the fraud triangle that districts can control, she said.

Her firm is often brought in to investigate an allegation of fraud and to find the gaps in internal controls and practices that made a crime possible.

You can never create controls that will guarantee your district will be fraud-free forever, Wright warned. "If you try, you'd never get your work done," she said.

However, you can minimize problems if you determine areas in the district with the highest risk for fraud and focus on those.

"By taking away the opportunity, you keep the honest people honest," Wright added.

Here are a few suggestions that can help:

■ **Identify, prioritize possible threats.** This usually involves some brainstorming to consider where and how losses could occur, Wright said. For example, ask: In what departments could cash be stolen? Are bank accounts reconciled? Could payroll checks be processed without authoriza-

tion? Is there a travel policy?

Consider every way that losses could occur. Know where the risks are and about the controls that are already in place to address potential problems. Then, assess the likelihood of loss in each area that's been identified and determine the magnitude of the problems that would ensue if the loss occurred.

■ **Rate board, management attitudes.** The attitudes and behaviors of school board members and district management are important because they set the tone in the district. They should be included in a risk assessment, but that's not always an easy task, Wright said. "If a district employee is doing a risk assessment, it's not easy to say the board has the wrong attitude," she said. However, board members and district managers need to set the example for the behaviors they want to see followed. Otherwise, they won't get the desired results from district employees.

■ **Focus on the highest risks.** Make sure you have good internal controls in the areas identified as the riskiest, Wright said. Consider, too, that layoffs might reduce the effectiveness of controls that were originally adequate, she said. For example, segregation of duties provides checks and balances. But if a human resources staffer has also been assigned payroll duties because of a layoff, that could make it easier for an account for fictitious, or "ghost," employees to be set up, Wright said.

■ **Perform random checks.** Just because you have controls in place doesn't mean they're always followed, Wright said. Consider surprise audits to verify compliance. Some districts and consultants also use data-mining software that highlights anomalies in data that could signal possible fraud.

■ **Establish a fraud reporting hotline.** Tips about possible fraud are how most incidents are detected, so a hotline is a good deterrent, Wright said. Make sure it's available 24/7, and reassure employees of anonymity and confidentiality. Using a third-party vendor to take the calls could ease employee reluctance to make a report, she added. Let stakeholders and vendors know about the hotline, and include a notice on the district website. Include a notice in vendor contracts, too, so they know they can report concerns.

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