

Employee Theft - Is Your District Protected

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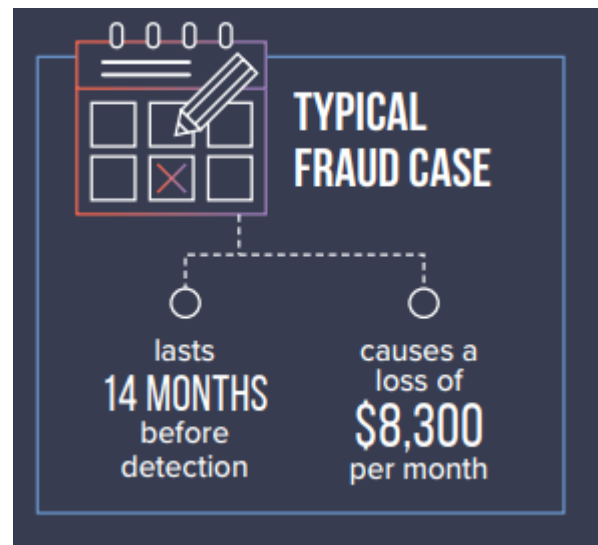
How big a Problem is Employee Theft?

- ▶ This crime in the workplace is costing US businesses \$50 billion a year—
CNBC



How big a Problem is Employee Theft?

► Report from the Association of Certified Fraud Examiners



Does it happen in Wisconsin Schools or related clubs?

- ▶ Hartland-Lakeside School District employee stole \$33,000 for personal use ([jsonline.com](#))
- ▶ Former Brown Deer PTO treasurer embezzled \$59K+ ([fox6now.com](#))
- ▶ Former West Allis school employee caught stealing from the district ([fox6now.com](#))
- ▶ Former Random Lake School District employee faces theft charges ([fox6now.com](#))
- ▶ Wisconsin high school's athletic director convicted of theft ([grandforksherald.com](#))
- ▶ Green Bay School District: Principal fired for theft of funds ([wtaq.com](#))
- ▶ Ex-Berlin school worker convicted of stealing \$30K ([thenorthwestern.com](#))
- ▶ Former New London school employee charged with felony theft, accused of stealing more than \$60,000 ([waupacanow.com](#))
- ▶ Former Beaver Dam Booster club president charged with theft ([wiscnews.com](#))
- ▶ Food service worker embezzled \$110,000 from Brown Deer school district ([tmj4.com](#))
- ▶ Hortonville teacher accused of embezzling from PTO ([postcrescent.com](#))
- ▶ Former Kimberly booster club treasurer arrested ([postcrecent.com](#))
- ▶ Former Colby School District employee accused of charging over \$7,000 on district credit card ([centralwinews.com](#))

Winneconne Story

- ▶ Week of June 9, 2014 - This happened almost 8 years ago!

I recently recovered a crucial repressed memory. But then I forgot it.



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“The tests show you’re not losing your memory. Are you doing anything worth remembering?”

Where it started



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- ▶ Bank reconciliation - Elementary school end of month student activity deposit was not posted to the bank account: \$177.50
 - Started looking for an explanation
 - Posted in the following month?.....No
 - Posted to another district account?.....No
 - Lumped together with another end of month deposit in the wrong account?.....No
 - Did the deposit bag never make it to the bank? Questioned everyone involved. Is it in a drawer? In the mail room? In a mail tote? In the courier van?.....No
 - Discovered that the following end of month deposit was also not posted \$138.75
 - Continued to think of different scenarios - we had records in elementary receipt books and a deposit ticket, just no deposit



Still considering options



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- ▶ First missing deposit was all cash; second missing deposit contained cash and \$100 check
 - Did the check clear the bank? Yes!
 - Cleared April 4th, but documentation indicated deposited on April 30th??
 - Discussed with Elementary School Administrative Assistant - still fairly new to district (hired 11/2012); she provided a reasonable excuse:
 - She had mistakenly co-mingled the funds with general operations receipts; the check was included in a general operations deposit (had records of overage and how handled - set aside \$100 in cash from general operations to replace the check and later be deposited with student activity); She didn't think it mattered as long as her deposits were correct in total
 - Viewed this as a training opportunity - explained that checks should never be swapped for cash and the importance of the paper trail matching actual; walked through the steps she should have taken

The plot thickens



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- ▶ Discovered other missing deposits - one from the middle school (\$415) and one from the high school (\$2015)
 - ▶ Went through the same scenarios
 - ▶ Tracked down payor of check - this time, it had not cleared the bank
 - ▶ Involved the bank - they could not find any record of the deposits, in our accounts or anyone else's accounts; bank started an internal investigation
 - ▶ Discovery at bank - I was at the bank and the teller asked about a deposit she was holding due to the money in the bank bag not matching the deposit ticket (\$0.10); after our conversation she used white-out to correct the district prepared deposit ticket and write in the corrected amount.
 - ▶ Discovered that one of the missing deposits was from a day that the bank and the school closed early due to a snow storm

The plot thickens, continued



- ▶ Week of June 23 - Starting to believe that the missing deposits are stolen - we set up a meeting with the local police
- ▶ Bank reconciliations continue
 - ▶ There is an elementary deposit that doesn't reconcile -the receipt book does not match what was deposited at the bank, \$5
 - ▶ Records from the bank are requested - includes the deposit ticket, the banks "cash in" receipt and copies of all of the checks in the deposit
 - ▶ Analysis of the deposit and comparison to our receipt book records
 - ▶ Something fishy - check cleared bank that wasn't in receipt book

We have a thief



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- ▶ Police agree that we have a theft issue
- ▶ Police suggest an in-depth review of another deposit
 - ▶ Request records from the bank for a second deposit; receive records the first week in July and continue analysis
 - ▶ Suspect is the Elementary School Administrative Assistant
 - ▶ Business as usual; did not discuss with anyone
 - ▶ We celebrated her birthday!



We have a thief, continued



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- ▶ Analysis of the bank records for the second deposit reveal a similar issue - there is a check in the deposit that is not noted anywhere in the receipt book
- ▶ Requested records from the bank for all deposits in that month
- ▶ In-depth analysis of each deposit, difficult and time consuming due to nature of deposits at elementary school; receipts for lump sums (examples: food service and fieldtrip money collected by classroom teachers)
- ▶ Cross referenced with Skyward food service records
- ▶ Prepared spreadsheets outlining discrepancies for each deposit

What was she doing?



- ▶ Multiple layers of stealing
 - ▶ Outright theft of cash from bank bags (the missing deposits) and cash boxes (theater performance - tickets and concessions)
 - ▶ Under posting check amounts (food service deposits - check was for \$50, but she would post in Skyward family account for \$40 - even her own food service account)
 - ▶ Swapping checks for cash; Checks were received, but not recorded; used to deposit in the place of the receipted cash she was putting in her pocket; ranged from \$14 to \$675 per deposit

	Per Receipt Book		Actual at Bank			
cash	\$ 391.00		\$ 160.00			
check	\$ 5,171.05		\$ 5,402.05	➡	difference	\$ 231.00
	\$ 5,562.05		\$ 5,562.05			

End Result



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- ▶ Elementary School Administrative Assistant was arrested (at school)
- ▶ Taken to local police department and questioned
- ▶ Confessed after 2-3 hours of questioning; later denied
- ▶ Court complaint filed July 11, 2014
 - ▶ 3 counts of theft, misdemeanor
 - ▶ Claimed we would have time to gather additional evidence (additional \$ stolen) to rise to level of felony, but later denied ability to add to the case
- ▶ Hearing in November 2016 to amend restitution amount
 - ▶ I had to testify
 - ▶ Restitution ordered \$9,329.05

Lessons



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- ▶ Bank procedures
- ▶ Training for staff - the details matter
- ▶ Segregation of Duties
- ▶ Expectation of Frequent Deposits (at least weekly)
- ▶ Timely Bank Reconciliations
- ▶ Keep digging!
- ▶ Trust No One



How can you protect an unfortunate event?

Crime Coverage-Employee Theft

- ▶ Application
 - ▶ Determines what controls you have in place
 - ▶ May ask for audited financial statements
 - ▶ All of this to determine pricing
 - ▶ The more controls you have in place, the lower the premium

Employee theft covers more than just funds



Coverage Nuances

- ▶ Coverage Triggers
 - ▶ Discovery (similar to claims made)
 - ▶ Loss Sustained (similar to occurrence)
- ▶ Work with Your Insurance Professional
 - ▶ Most important when you are changing insurance companies



Coverage Nuances

- ▶ PTA, PTO and Booster Club
 - ▶ Independent non profit corporation
 - ▶ Need insurance outside of the district plan
 - ▶ Affiliated with district only
 - ▶ Work with your insurance professional



How Much Insurance Should I Purchase?

- ▶ Crime is generally a package policy with employee theft set to match the highest limit of all coverage.
 - ▶ Forgery and Alteration
 - ▶ Inside Theft of Money and Securities
 - ▶ Inside Robbery of other Property
 - ▶ Outside the Premises
 - ▶ **Computer Fraud**
 - ▶ **Funds Transfer Fraud**
 - ▶ Money Orders
 - ▶ Counterfeit
 - ▶ **Social Engineering Fraud**



How Much Insurance Should I Purchase?

- ▶ Crime or Cyber Insurance?
 - ▶ Computer Fraud
 - ▶ Fund Transfer
 - ▶ Social Engineering Fraud
- ▶ Key Item: if theft is committed by an employee it is covered by your employee dishonesty policy.



\$50b
In Total
Losses

Insurance in Winneconne?

- ▶ Yes
- ▶ However, did not recover the loss due to failure to file timely
- ▶ 120 day window...however,
 - ▶ Small business office at fiscal year end/audit
 - ▶ Hadn't finalized full amount of loss
 - ▶ Cost prohibitive to outsource to forensic accountant
 - ▶ Things to look for in your insurance policy - proof of loss endorsement

WHAT AM I PAYING MY AUDITOR FOR?

- ▶ I was a governmental and non profit auditor 12+ years
- ▶ Been involved in 4 fraud cases while an auditor one experience as a business manager (inherited it)
- ▶ Auditors are not hired to detect fraud specifically, but have to report it if they find it.
- ▶ Look at engagement letter

ENGAGEMENT LETTER

“IT IS WHAT IT IS “

- ▶ The objective of our audit is the expression of opinions as to whether your financial statements are **fairly presented, in all material respects**, in conformity with accounting principles generally accepted in the United States (GAAP) as promulgated by the Governmental Accounting Standards Board, and shall conform to the accounting system prescribed by the Wisconsin Department of Public Instruction (DPI) under S.115.28(13) stats., and **to report on the fairness of the supplementary information referred to in the second paragraph when considered in relation to the financial statements as a whole.**
- ▶ An audit includes examining, on a **test basis**, evidence supporting the amounts and disclosures in the financial statements; therefore, **our audit will involve judgment** about the **number of transactions to be examined and the areas to be tested.**
- ▶ Because of the **inherent limitations of an audit** combined with the inherent limitations of internal control, and because **we will not perform a detailed examination of all transactions, there exists an unavoidable risk that material misstatements may exist and not be detected even though our audit is properly planned** and performed in accordance with GAAS and Government Auditing Standards. In addition, an audit is not designed to detect immaterial misstatements or violations of law or government regulations that do not have a direct and material effect on the financial statements or major programs. However, we will inform Client’s management and you of any material errors, fraudulent financial reporting, or misappropriation of assets that comes to our attention. We will also inform Client’s management and you of any violations of law or government regulations that come to our attention, unless clearly inconsequential, and of any material abuse that comes to our attention

WHERE IS THE AUDITOR?

- ▶ Most fraud is not found from audit procedures but from some internal “happening”
 - ▶ Vacation
 - ▶ New hire checking procedures
 - ▶ Gut feeling that something isn’t right
 - ▶ THE FRAUD TRIANGLE

The Fraud Triangle



Limit what you can:

- Opportunity: Probably the easiest to eliminate from a management standpoint
- Pressure: Be in tune to employees personal lives (ick!)
- Rationalization: “ I deserve this money” - Seriously look at wage rates.

YOU THINK YOU'VE DISCOVERED
SOMETHING NOW WHAT?!!!



Goodwill-Appleton-2003

Betrayal-By Jed Block

- ▶ -I was the senior auditor for 2 years while employed by a regional audit firm
- ▶ Noted no evidence of fraudulent activity in those 2 years
- ▶ 27 year veteran of Goodwill stole over \$500,000 in 10? Years
- ▶ She lived in my neighborhood
- ▶ Went to my church
- ▶ We lost the audit client and the new firm that picked it up realized a cash discrepancy
- ▶ Excellent read providing a real life day to day account of the reaction to the fraud (including how they handled the media) and the impact on the people that worked there.

YOU THINK YOU'VE DISCOVERED SOMETHING NOW WHAT?!!!

FRAUD RESPONSE TEAM

- Plan for the worst hope for the best
- Have a “leader” that fraud can be reported to
- Action taken in the first few hours/days can be critical to the ultimate outcome
- KEEP QUIET!!!
- Get as much evidence together as possible before anyone is questioned, confronted or interviewed.
- You MIGHT want to contact your auditor.....

Final Thoughts

- ▶ Always be skeptical - data shows theft is everywhere
- ▶ Monitor internal controls
 - ▶ Trust is important but cannot replace documentation
- ▶ Be insured to protect district
- ▶ Be ready to face an issue