

# Real Life Fraud and How it Could Have Been Prevented:

- \*Accounts Payable and Purchasing
- \*Fixed Assets

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Presenter: Holly Rogers, Chief Financial Officer  
Columbus Municipal School District

# What is Fraud?

- ▶ Wrongful or criminal deception intended to result in financial or personal gain.
- ▶ Three types:
  - \* Corruption
  - \* Financial Statement
  - \* Asset Misappropriation
- ▶ This is why internal controls are so important!

# Accounts Payable/Purchasing Fraud

- ▶ Any kind of fraudulent financial behavior that targets or exploits an organization's accounts payable system.
  - \* May include internal fraud committed by an employee.
  - \* May be an external fraud perpetrated by a vendor or supplier.
  - \* Could be an employee and a vendor working together.

# Real Life AP Fraud

## ▶ The Sneaky Employee:

In this scheme, an internal employee who has access to vendor files changes the banking information of an existing vendor with their own bank account information. They can submit false invoices to pay themselves and then switch the bank information back to pay the real vendor when a valid invoice is submitted from them. They just change the information each time they want to be paid for a false invoice.

# Real Life AP Fraud

## ▶ The Phantom Vendor:

In a seemingly routine AP process, a district received invoices from a vendor named “Reading Ready.” Not really their name, but let’s go with it. Sounds legit, right? In the hustle and bustle of the AP docket deadline, the invoices were processed without thorough vetting. Months later, they discovered that “Reading Ready” was a fictitious entity created by an insider to siphon funds.

# Real Life AP Fraud

## ► True Story:

James Colucci, the former Assistant Director of a municipal office in New Jersey was charged with fraudulently invoicing the city figures in excess of \$74,000. His crimes are alleged to have taken place between December 2017 and February 2019, where he used the names of two fake companies and a false name to file the documents. Doesn't sound like much over two years, but that's an additional \$3,000 per month.

# Real Life AP Fraud

## ► True Story:

Cyber security publication “Naked Security” fell victim to invoice fraud that ran for a period of four years. A former IT executive established a fake shell company and used it to pose as a legitimate supplier. This enabled him to generate fraudulent invoices and process payments to his own bank account. The company eventually called the employee out by tracing metadata in Microsoft Word documents, by which time the fraud had amounted to a cool \$6 million.

# Real Life AP Fraud

## ► True Story:

A-1 Janitorial has offered businesses across the US and Canada a free sample of cleaning product, then billed those companies at full cost. The invoices they sent would call out an employee by name, increasing the likelihood the recipient would pay. Any companies that did pay were then sent more unordered products, followed by additional invoices.



# Real Life AP Fraud

## ► True Story:

I had an administrator that wanted to purchase athletic wear for staff. He knew it wasn't allowed, so he and an eager salesman created a plan. Our district issued a purchase order for a list of items that would be perfectly legal to purchase for our program and the cost coincidentally added up to the same cost of the staff gear. By mistake, the vendor sent the true invoice to me instead of the fake one. They tried to explain that it was just a mistake in the invoice description, but I asked to see the delivered items.

Guess what happened.

# How to Prevent AP Fraud

- ▶ Who selects vendors?
- ▶ What vendor information is required for new vendors?
- ▶ Who oversees the verifying of vendor information and setting the vendor up in the system? Is it just one person?
- ▶ Who signs off on invoices and verifies the receipt of goods or services?
- ▶ Do you require purchase orders in your district before ordering may take place?
- ▶ What are the consequences to those that order outside of your procedures?

# How to Prevent AP Fraud

- ▶ Who reconciles your vendor statements?
- ▶ How often do you check vendor statements?
- ▶ Are more than one pair of eyes on your vendor statements?
- ▶ Do you show invoices as being paid on your district's AP check, yet the vendor still shows it is outstanding?
- ▶ Do invoices show paid on your district's AP checks, yet cannot be located on a statement anywhere?

# How to Prevent AP Fraud

- ▶ How often is your AP Clearing bank account reconciled?
- ▶ Who reconciles your AP clearing account?
- ▶ Does this person also have the ability to issue or sign checks?
- ▶ Is your bank account reconciled to the penny?
- ▶ How old are your oldest outstanding checks?

# How to Prevent AP Fraud

- ▶ Who has access to your system to clear a check from your outstanding list? This would open up that amount of funds to clear your account without detection as long as the original check never clears your banking account.
- ▶ What does your accounts payable clearing process look like at the bank level?
- ▶ Could a check clear your account without detection of fraud?

# How to Prevent AP Fraud

- ▶ Can funds be transferred between accounts without alerting a second party?
- ▶ My district uses Positive Pay through Cadence Bank so checks cannot clear our account unless they have been added into the banking system. This is verified by check number and amount and alerts us daily. Does your district have a safety net like this in place?

# The Real AP Cringe Moment

- ▶ If you were going to, how would you be able to commit fraud through Accounts Payable at your district?
- ▶ Would you be able to do it alone?
- ▶ How easy do you think it would be to request to have a new vendor setup in your system?
- ▶ How easy do you think it would be to have an invoice processed for payment without detection?

# Fixed Asset Fraud

- ▶ I stated earlier that Asset Misappropriation is a form of fraud. This is what we've been talking about so far. It's a term used to describe manipulated accounts, the creation of false invoices, or just flat-out embezzlement.
- ▶ But now we are going to shift gears a little bit and talk about actual Fixed Asset Assets. What are some ways fraud can be committed with your fixed assets and how can we stop it?



# Fixed Asset Fraud

- ▶ Any kind of fraudulent behavior that targets or exploits an organization's fixed asset inventory.
- ▶ Three of the most common fixed asset types:
  - \* Property.
  - \* Plant.
  - \* Equipment.

# Real Life Fixed Asset Fraud

## ▶ True Story:

I've talked about this case before. In 2017, while employed as the principal of a high school, a man was accused of negotiating a contract with a company for private use of the school's parking lot. He did not receive proper authorization and profited about \$57,000 from the deal.

# Real Life Fixed Asset Fraud

## ▶ True Story:

A security department kept reporting their radios as lost, stolen, or broken and the items were replaced each time. However, the replacement items could never be located. Turns out, they were using their original items that worked just fine, selling the replacement items, and pocketing the money.

# Real Life Fixed Asset Fraud

▶ True Story:

In Florida, a school district's Transportation director and his wife were arrested for stealing more than \$8,300 worth of tools belonging to the school district. Various tools were located at their residence through a search warrant.

# Real Life Fixed Asset Fraud

## ► True Story:

At Minneapolis Public Schools, 5,391 student-issued Chromebooks have been lost or stolen along with 68 iPads and 328 mobile hot spots between Fall 2021 and Spring 2023 — costing at least \$1.67 million to replace, according to inventory data obtained by the FOX 9 Investigators.

In all fairness to the district, they had not collected and reconciled their inventory until the summer of 2022.

# Real Life Fixed Asset Fraud

► The old switcheroo:

Imagine your district purchasing a \$2,000 computer only to discover during an inventory audit that it was a cheaper version of what you expected to find.

How did this happen? And what happened?

How could you prove an exact point in time where the fraud was committed?

# How to Prevent Asset Fraud

- ▶ How often to you conduct an internal fixed asset inventory audit?
- ▶ What are the consequences to lost items?
- ▶ How often to you spot check assets for current location and proper usage?
- ▶ What are the consequences to the misplacement or misuse of an asset?

# How to Prevent Asset Fraud

- ▶ Do you have an inkling that some of your assets are going home for personal use? Spot Check! Spot Check!
  - ▶ Computers
  - ▶ Lawn Equipment
  - ▶ Transportation and/or Maintenance Tools
  - ▶ Vehicles
  - ▶ If your employees are offended or defensive when you spot check, something is wrong!



# How to Prevent Asset Fraud

- ▶ How many times does a computer come up missing and the staff are quick to jump to it being a stolen item? They know if they lost it that they could potentially have to pay for a replacement, right?
- ▶ Does your district call the police or is there an in-district security staff where it is reported and that's it?
- ▶ Are there any consequences when the item is ultimately located in another room or building in your district?

# The Real Asset Cringe Moment

- ▶ How easy do you think it would be to walk away with an asset and never be caught?
- ▶ Could you do it alone or would you need a partner?
- ▶ How long do you think it would take for someone to realize an asset is missing?
- ▶ Who signs off on asset disposals?
- ▶ Do you check items up for disposal to ensure the item is actually there and not being disposed because they are unable to locate it?

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## Questions or Discussion?

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