Fraud Prevention/Student Activity Account Best Practices

November 6, 2019

Agenda

- Fraud Prevention
- Student Activities
- Credit Cards

STOP FRAUD

How to Report Fraud
Cressey’s Fraud Triangle

Warning Signs - Behavioral

Warning Signs - General
Generally Most High-Risk Areas

Cash
- Easiest to grab
- Sometimes poor controls

Credit Cards
- Easy to use, easy to abuse
- Controls, Controls, Controls!

Fraud Schemes

Payroll
- Employee fraudulently generates overcompensation on his/her behalf.
- Most common payroll frauds
- Ghost employee; Failed hours and salary

Check Tampering
- Employee prepares a fraudulent check for his/her own benefit; or
- Employee intercepts a check intended for a third party and converts the check

Expense Reimbursement
- Most likely theft of expense reimbursements;
- Overstated expense reimbursements;
- Fictitious expense reimbursements;
- Multiple reimbursements

Fraud Schemes (cont'd)

Cash Register
- Common at Schools
- Employee removes cash from register, then
- Enters refund or voids sale to cover up theft

Billing
- Most common and costly disbursement fraud
- Fraudster provides false support;
- Invoices, purchase orders, purchase requisitions, receiving reports, etc.
- District issues check based on false information
- Purpose for most billing schemes is to generate cash or goods for sale
- Cause District to buy goods or services that are:
- Nonexistent;
- Overpriced;
- Not needed by the District.
1. Fraud Prevention Program

- Appropriate Ethical Training
- On-going Risk Assessment Program
- Written Policies & Procedures
- Internal Controls
- Segregation of Duties and Reconciliation
- Fair & Balanced Discipline
- Audit Committee

2. Attitude Fraud Prevention

3. Techniques Fraud Prevention

Fraud Prevention: 1. Fraud Prevention Program, cont.

- Do you have an audit committee?
- Does it rarely meet?
- Do they pass on tips received?
- Do you have internal controls?
- Are they enforced?
- Do you have an ethics policy?
- Is it communicated?
Fraud Prevention: 2. Attitude

- The Importance of Exercising Professional Skepticism
- Trust but Verify!

Fraud Prevention: 3. Techniques

- Segregation of Duties:
  - Disperse critical functions of a process to multiple persons or departments
  - Ensure that no single individual has control over all critical functions

- Reconciliation:
  - Checks & Balances
  - Periodic, monthly reconciliation of bank statements

- Oversight:
  - Asking the right questions of employees (including the one who completed the task)
  - If you don’t know/understand something, ask

Student Activities

- Senior Night
- High School Reunion
Student Activities - Agenda

Authority
Administration

Policy Development
• General Student and District Managed Activities
• Fund Raising Policies
• Purchasing Policies
• Dormant Funds

Management of Student Activity Programs
• Student Managed Student Activity Programs
• District Managed Student Activity Programs

Student Activities - Authority

ORC § 3315.062 permits a board of education to expend funds for student activity programs. This section states:

• The Board of Education of any school district may expend monies from its general revenue fund for the operation of such student activity programs included in the program of each school district as authorized by the board of education. Such expenditures shall not exceed five-tenths of one percent of the board’s annual operating budget.

Student Activities - Authority

ORC § 3315.062 further states:

• If more than $50 a year is received through a student activity program, the monies from such a program shall be paid into an activity fund established by the board of education.
• The Board of Education shall adopt regulations governing the establishment and maintenance of such fund, including a system of accounting to separate and verify such transactions and to show the source from which the fund revenue is received, the amount collected from each source, and the amount expended for each source. Expenditures from the fund shall be subject to the approval of the board.
Board of Education

- Adopt, by resolution in official board minutes, rules, regulations, and policies to govern the establishment and operations of student activity funds (Funds 200 and 300), authorization of related organizations, as well as the participation of students and school district employees in fund raising programs of these related organizations.

Student Activities - Administration

Treasurer

- Responsible for enforcement of accounting procedures and internal control procedures
- Custodian of all funds (ORC 3313.51)
- May delegate an employee to receive custody of student activity funds
- The custodian must deposit monies with the treasurer or properly designated depository, in accordance with district policies and ORC § 9.38.

Superintendent

- Responsible for administrating all board policies, except those required of the treasurer.
Student Activities - Administration

Principal

- Principal or authorized administrator is responsible for the approval of requisitions for the expenditure of funds and any other duties as assigned by the superintendent of the school district.

Advisor

- Prepare annual budgets and purpose clauses of the activity group
- Supervise the activities of the group, including preparation of fund raising potentials, proofs of cash, and other appropriate documentation
- Any other duties as assigned by the proper administrative authority

Student Activities - Policy Development

General Student and District Managed Policies

- Formulate an overall policy statement which governs the management and control of all student managed student activity programs.
- Formulate an overall policy statement which governs the management and control of all district managed student activity programs.
- Guidelines for each are included in a manual on the AOS internet page.
General Student and District Managed Policies (cont'd)

- The appropriate administrative personnel, as authorized by the board of education, should develop administrative guidelines or an administrative handbook that addresses specific rules, regulations, guidelines, and procedures to be followed in the management and day-to-day operations of student and district managed activities.

Student Activities – Policy Development

- Create fund raising policies.
- Develop purchasing procedures.
- Areas that should be addressed are included in manual on AOS internet page.

Student Activities – Policy Development

Dormant Funds

- Each school district should adopt a policy governing the disposition of funds remaining after a specific student activity group is dissolved.
- Appropriate methods include authorized expenditures, donation of remaining funds to another student activity program, or transfer of funds in accordance with legal requirements.
• Fund 200
  • Includes those student activities which consist of a student body, student president, student vice-president, student treasurer, and faculty advisor.
  • The purpose should be to promote the general welfare, education, and morale of the students and to finance the normal, legitimate co-curricular activities of the student body organizations.

Student Managed Student Activity Programs

• Fund 300
  • Usually include athletic programs but could also include the band, cheerleaders, flag corps, and other similar types of activities.
  • The purpose of the programs should be to promote participation in those activities associated with the programs. This policy statement should create the parameters within which all of these activity programs can achieve this purpose and operate effectively.

District Managed Student Activity Programs

• The school district is required to include all activities related to Fund 300 in their formal budgetary process.
Budgetary Process

• The school district is also now required to include all activities related to Fund 200 in their formal budgetary process.

GASB 84: Fiduciary Activity

• Effective Fiscal Year Ending 6/30/20
• Change in Student Activities Reporting

Student Activities

Collection and Deposit of Cash

• Each board of education should review the structure and organization of their school district to determine the most appropriate procedures to implement. The policies and procedures should be designed to ensure accountability over cash receipts.

Need More Info?

Enacted House Bill 312
Credit Cards

What was effective date? November 2, 2018

What is school district ORC section? 3313.311 & 9.21

Enacted HB 312 - Credit Cards

What does this HB do?

- Enacts baseline controls and procedures regarding credit cards for all governmental entities throughout the State of Ohio
- Eliminates the use of debit cards by governmental entities
- Promotes enforcement of credit card policies and procedures
Creating a Credit Card Policy

By February 2, 2019, each entity must adopt a written policy for the use of credit card accounts.

If your entity currently does not use credit cards, you must adopt a policy prior to using or opening a credit card account.

What must each policy include?

- The officers or positions authorized to use a credit card
- The types of expenses for which a credit card may be used
- The procedure for acquisition, use, and management of a credit card account and presentation instruments related to the account (e.g., cards and checks)

What must each policy include (cont’d)?

- The procedure for submitting itemized receipts to the treasurer or chief fiscal officer, or their designee
- The procedure for card issuance, reissuance, cancellation, and the process for reporting lost or stolen cards
- The entity’s credit card account(s) maximum limit(s)
- The actions or omissions by an authorized user which would qualify as misuse of a credit card
How does the HB define a credit card?

- A bank, financial institution, or financial depository-issued card
- A store-issued credit card (Lowe's, Home Depot, etc.)
- An affinity credit card (Online retailers like Amazon, eBay)
- Any 'debit' or gift card which is tied to grant money
- Any other card which allows the user to purchase an item on credit

A credit card is not:

- A procurement card, a.k.a. P-Card
- Gasoline or telephone card
- Any other card where merchant category codes are in place as a system of control on the credit card account

Each credit card will now be required to at least have the name of the entity on the credit card. This could be in addition to the authorized user's name being listed on the card.
Enacted HB 312 - Credit Cards

Prohibits the use of a debit card except for law enforcement purposes and debit/gift cards which are tied to grant moneys.

Custody & Control Model

When the treasurer has custody and control of all of the credit cards and signs them out to users as transactions are needed.

Each treasurer should assess an appropriate amount of time for a credit card to be signed out.

The system should not be abused to curtail the necessary controls being enacted into law.

Compliance Officer Model

When the treasurer or chief fiscal officer does not retain custody and control of the account and related credit cards and checks.

For a school district, the board appoints a compliance officer in this instance, who may be an existing member of the staff.

The only restrictions are that the compliance officer may not use or authorize anyone else to use a credit card, and the treasurer is not eligible to be the compliance officer.

The superintendent is able to use a credit card if they are appointed the compliance officer, and no individual may be required to have their credit card transaction dated reviewed and approved on a monthly basis with the treasurer or their designee, who shall sign an attestation stating they have reviewed the transaction detail.
Every 6 months the Compliance Officer must review:

- # of cards & accounts issued
- # of active cards & accounts issued
- Card & account expiration dates
- Card & account credit limits

Enacted HB 312 - Credit Cards

Credit Card Reward Reporting

Credit card rewards are an effective way to help reduce your monthly bill.

The new law provides that the treasurer or chief fiscal officer will annually file a report detailing all rewards received by the entity as a result of its credit card use.

The law was written broadly so each entity can be as granular with their data as they would like.

Credit Card Rewards

Airline Miles  Cash Back
Points for Free Items  % off Purchases
Enacted HB 312 - Credit Cards

The use of any card or account for expenses beyond those which are authorized by the board, constitute misuse of a credit card. A violation of such statute at a 1st degree misdemeanor, and can rise to a felony under Rev. Code Section 2913.21.

Fraud Prevention/Student Activity Account Best Practices

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