School Fraud
Avoiding Financial Fraud in Your Schools
Organizations of all types face numerous costs and risks. One risk that is regularly overlooked by businesses and government organizations is the risk of fraud. Historically, K-12 public schools have fallen victim to fraud far more than many other areas. In the Association of Certified Fraud Examiners Report to the Nations, it was found that of the 22 industries examined, education experienced the 5th highest number of fraud instances.

Schools across North America collect billions of dollars in Student Activity Fees. As school fees are still largely paid in cash and are handled by multiple staff within a school, there is a high chance of skimming and cash-on-hand misappropriation. Although these cases often occur in small amounts, the frequency of reported cases in education is one of the highest out there.

When fraud is exposed within schools, it makes for eye-catching headlines because it just seems blatantly wrong and dishonest for anyone to financially exploit kids within the education system. Before getting into ways to battle fraud, let’s be clear about what’s involved. Fraud is defined as “wrongful or criminal deception intended to result in financial or personal gain.”¹

In many cases, people who commit school fraud do not have criminal records and have not committed fraud in the past. When colleagues and friends are questioned about the individual, they will often say that they could never imagine the person committing such an act. So why do these otherwise seemingly good people make these poor decisions?

There are several human aspects to the process of committing fraud. Usually fraud and fund-mismanagement occur as a result of pressure, rationalization and opportunity.

**Pressure**
Pressure can come from compulsive behaviors like gambling, alcohol and drug use. It can also come from financial debt and family problems.

**Rationalization**
Rationalization is how the perpetrator justifies the act to themselves and is a form of denial. The individual may believe they earned it, need it more than another person, feel they are owed, or that they would be forgiven if caught.

**Opportunity**
Opportunity comes from individuals believing that they can commit fraud without getting caught. This can be influenced by the tone set by management and poor procedures that make committing the act easy and getting caught unlikely.
The sad reality is that school level fraud occurs every day. It’s the PTA member who takes a couple dollars out of a collection to grab a coffee with a mental note to replace it tomorrow. It’s the football coach who buys pizzas for the team using uniform funds, but forgets to replace it. It’s the school bookkeeper who takes $200 from a field trip collection, to pay for another school cost and does not create a journal entry to record the transfer of funds. It happens all the time. Here are some noteworthy examples:

In 2012, an instance totaling $3 million over a three-year period happened in Oakland, California where a school administrator and her husband, the school’s chief executive, embezzled funds through several of their privately-owned companies.

In 2012, a British Columbia school district charged one of its former school bookkeepers with defrauding one of its secondary schools. The case centered around dozens of bogus checks from the school that the bookkeeper pocketed directly. It was also suspected that cash collected for student fees was stolen. This activity slowly took place over 2 years and the district estimates that over $100,000 was taken by the bookkeeper.

In 2016, a Texas school district was notified by local police of a criminal investigation. A forensic audit revealed that almost $3,000 was stolen from the band activity fund and that a former employee was given a $70,000 paycheck, by mistake - which was cashed and used to buy a Mercedes.

This kind of fraud happens far too frequently. It not only causes financial losses to the schools and their districts, but has a negative impact on public relations, as well as the perception of safety in the schools. Districts need to be seen as strong stewards of public funds. When parents, volunteers, and school staff see that the funds they worked hard to raise are not being protected, they can lose trust in their district. Further, if a fraud case goes to court, it places a large burden on district employees.
The good news is that fraud and Student Activity Fund mismanagement can be prevented. There are five key concepts to keep in mind when it comes to fraud prevention.

**Leadership**
It is important for the senior leadership team at your district and within your schools to lead by example and create a culture conductive to honesty and integrity.
- Are performance expectations set realistically?
- Are staff comfortable reporting suspicious activity confidentially?
- Are staff support programs for those struggling with personal issues offered?

**Training**
Districts should offer ongoing training for all staff that are expected to deal with School Activity Funds.
- Do staff understand what constitutes fraud?
- Do staff understand the consequences of committing fraud?
- Have staff been trained on your district’s specific policies?
- Do staff know where to go for advice in questionable ethical situations?
- Do staff know how to catch and report fraud around them?

**Role Clarity**
Employees at every level of your district who handle Student Activity Funds must have clear and defined roles.
- Do teachers, principals, secretaries, and district staff understand the actions that they can and cannot take when handling cash/Student Activity Funds?
Internal Controls

Schools can utilize many of the internal controls used by typical businesses to reduce fraud.
- Are duties properly separated among multiple employees?
- Do disbursements go through an approval process?
- Are bank accounts regularly reconciled, reviewed, and approved by an administrator?
- Are physical safeguards, such as vaults, used within schools?
- Is there district-level visibility to review deposited funds?
- Are there periodic internal audits for student activity funds?

Activity Fee Management Systems

Schools should use a School Activity Fund accounting and payment system that allows for financial visibility into every dollar collected.
- Does the system allow for online fee collections so cash can be taken out of schools?
- Does the system distinguish every unique user handling School Activity Funds?
- Does the system support a digital audit trail to record transactions and make them accessible in real-time?
- Is the system controlled via passwords to keep unauthorized users out of the system?

Detecting School Fraud

By keeping a watchful eye for the following accounting anomalies and behavioral triggers, you can prevent your district from experiencing the havoc that comes with a fraudulent situation. Here are some questions you can ask to help identify fraudulent accounting activities:

- Does your bookkeeper frequently make transfers from the school bank accounts or credit lines?
- Does your bookkeeper frequently take records home to work on, or work in the office when no one is around?
- Has your bookkeeper suggested replacing or getting rid of the outside accounting firm, saying they can handle the duties of the independent accountant to save on expenses?
- Are there frequently outstanding deposits in the reconciliations?
- Are deposits being taken to the bank on a regular basis?
- Does your bookkeeper/principal’s lifestyle seem inconsistent with their earnings?
Conclusion

By having the right approach and tools, schools and districts can be pro-active in preventing fraud from becoming a problem. In many ways, this requires changes in how schools operate financially, but it is an excellent investment in driving better school cash management and keeping your district out of the headlines. KEV Group's School Cash Suite software provides insights into every transaction coming into and out of schools and offers districts the approval workflows, auditing capabilities, user access levels, and internal controls to identify problems before fraud happens.

For more information, book a demo today or call us at 1.866.891.9138.