

# SAF/CAF Fraud Detection and Prevention



Principals' Meeting  
November 8, 2018

# Why is Fraud Important?

- Association of Certified Fraud Examiners (ACFE) claims that an organization loses 5% of annual revenue to Fraud
  - District with an operating budget of \$500M
  - Predicted loss to fraud is \$25M
- What is Fraud:
  - Any activity that is clandestine, violates the employee's fiduciary duties to the organization, is committed for the purpose or direct or indirect financial benefits to the employee, and costs the employing organization assets, revenues, or reserves – ACFE
  - Use of deception by a school district employee for their own personal gain

# The Fraud Triangle

- Provides a Framework to explain why employees commit fraud
- Three main components:
  - Financial Pressure
  - Perceived Opportunity
  - Rationalization



# One Employee Can Make a Mess

Fraud Detection and Investigation

# Club Sponsor

- High School teacher and club sponsor
- About a 5 year employee with district
- Brought a lot of good press to High School
- Severe financial problems
  - 3 bankruptcies in 17 years
  - Tax Liens on rental property owned
  - Recently divorced

# Fraud #1 - Paleta Fundraiser

- Club Sponsor had an “Ongoing” Fundraiser for 3 years
- Purchased over 8,000 Paletas
- Not all at once, 500 or so at a time over 3 years
- Had a Freezer installed in her classroom and another teacher’s room
- No preauthorization for fundraiser
- Sold Paletas at \$1 each (should’ve deposited \$8K)
- Only deposited \$2,700
- Could not account for \$5,300



# Missing Paletas – Recommendations

- Fundraisers should be Pre-Authorized
- Fundraisers should have an End Date
  - Went on 3 years
  - Two teachers had freezers installed in their classrooms
- Reconciliation at end of Fundraiser
  - Was it making money?
  - Were all Paletas or Funds accounted for?





School: \_\_\_\_\_  
**SALES ACCOUNTABILITY SHEET**  
SAF/CAF Accounts

**Purpose:** To compare monies deposited from the sales of items to the monies that should have been deposited.

SAF/CAF Account #	<input type="text"/>	Account Name	<input type="text"/>
Sponsor Name	<input type="text"/>		
Date(s) of Sale	<input type="text"/>	Items to be sold	<input type="text"/>
Supplier of Goods	<input type="text"/>	Sold to who?	<input type="text"/>
Sales Type: (circle one)	TAXABLE	NON-TAXABLE	
If taxable and if eligible, do you want to count this as a tax-free day? YES NO NA			
Total Sales Price for each individual item (including tax if applicable)			<input type="text"/>

Fundraiser?: (circle one) YES NO (If no, you are selling to cover your costs)

Planned Use of Fundraiser Proceeds

Administrator's Signature/Approval  Date

#####

**RECORD OF DEPOSITS:** Information for deposits should be obtained from actual deposits listed on the the SAF/CAF System.  
All deposits should have been supported by an acceptable Transmittal Form.

	DATE	AMOUNT		DATE	AMOUNT		DATE	AMOUNT		DATE	AMOUNT
1			6			11			16		
2			7			12			17		
3			8			13			18		
4			9			14			19		
5			10			15			20		

**TOTAL** \$ -

**RECONCILIATION:**

**For items sold on a pre-order basis: (e.g. - brochure sales, library book sales)**

Expected collections, per vendor's sales summary	<input type="text"/>
Total deposited from above	\$ -
Difference	\$ -

**For items purchased prior to sale:**

Total number of alike items purchased	<input type="text"/>
Less: Number of items returned for credit (if applicable)	<input type="text"/>
Equals: Total number of items available for sale	0
Multiply by Sales price per item	<input type="text"/>
Total that should have been deposited	\$ -
Compare to: Total Deposited from above	\$ -
Difference (between total that should have been deposited and total deposited)	\$ -

Please explain any differences:

Signature of person completing form  Date



# Fraud #2 - Shell Company

- Club Sponsor's son (Joshua) set up a Shell Company
- Son was listed as officer/director on Articles of Incorporation
- Company did not have any products or provide any services
- Sponsor ordered items "Exclusively" with son's company
  - High Tech Supplies and Equipment
  - Laptop Computer
  - T-Shirts and Polo Shirts
- Son then bought items from our usual vendors
- Doubled price on items mom purchased
- Overcharged the district by \$8K

# Shell Company Articles of Incorporation

P16000070279  
FILED  
August 24, 2016  
Sec. Of State  
sgilbert

## Article VI

The name and address of the incorporator is:

JOSHUA [REDACTED]  
[REDACTED]  
PORT ORANGE, FL 32129

Electronic Signature of Incorporator: JOSHUA [REDACTED]

I am the incorporator submitting these Articles of Incorporation and affirm that the facts stated herein are true. I am aware that false information submitted in a document to the Department of State constitutes a third degree felony as provided for in s.817.155, F.S. I understand the requirement to file an annual report between January 1st and May 1st in the calendar year following formation of this corporation and every year thereafter to maintain "active" status.

## Article VII

The initial officer(s) and/or director(s) of the corporation is/are:

Title: P  
JOSHUA [REDACTED]  
[REDACTED]  
PORT ORANGE, FL. 32129

## Article VIII

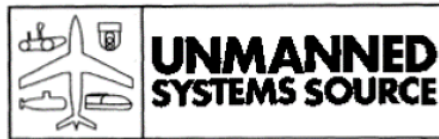
The effective date for this corporation shall be:

08/24/2016

# Shell Company – Recommendations

- Bookkeeper Should Question use of this Company:
  - Sponsor uses a new company nobody ever heard of
  - Uses this company exclusively
  - Sponsor lobbies others to use this company
  - Purchases unrelated items from this company
  - Prices for items double
- Bookkeeper should be up to date in scanning to Docuware
- Bookkeeper should attend bookkeeper meetings
- No administrative should provide oversight on purchases

# Fraud #3 - Created Fake Invoices



1646 S Research Loop, Ste 170 Tucson, AZ  
520-620-9818  
Email: info@unmannedsystemssource.com  
Mon-Fri 9am-5pm

Invoice #TJ8062RV

Date: 11/07/2016

██████████  
██████████ High School  
██████████  
San Antonio, Texas ██████████

Items	QTY	Price
VN-200 Surface Mount GPS/Ins	2	\$109.00
pingBuddy WiFi ADS-B Receiver	2	\$150.00
Free Shipping		
Total:		\$409.00
Paid by CC Visa ending 0456		\$409.00
Balance:		0.00

Bill To

██████████

Credit Card ending 0456  
Charged \$409.00  
Shipping Address:

██████████ High School  
Attn: ██████████  
██████████  
San Antonio, Texas ██████████



- Created 15 Fake Invoices
- This is an actual company
- Used personal credit card to “purchase” items
- No items actually purchased
- Handed invoice to bookkeeper
- Bookkeeper reimbursed her through SAF/CAF system
- Amount totaled over \$5K

# Fake Invoices – Recommendations

- Purchaser must utilize a purchase order
- Prohibit use of personal credit cards for sponsor purchases (except in emergency situations)
- Bookkeeper should question frequent personal credit card reimbursements
- Administrator should provide oversight of personal credit card reimbursements

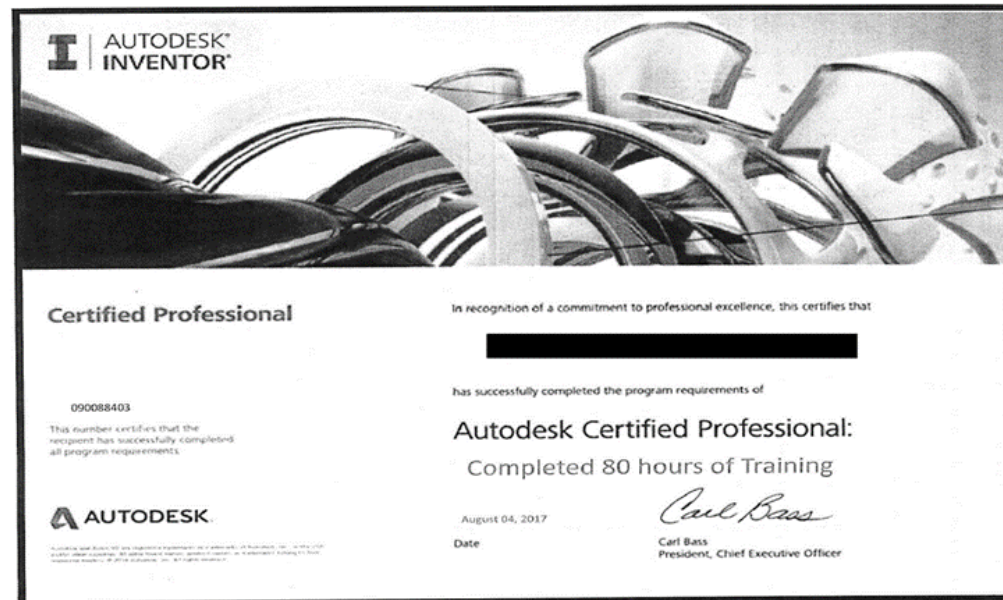
# Fraud #4 -Training Reimbursement Fraud

- Sponsor requested to attend 80 hour training class
- Class held at local hotel
- Was on waiting list and got in to class at last minute
- “Had” to pay with personal credit card at the training
- Submitted invoice and mileage for reimbursement
- Invoice from son’s Shell Company
- Submitted a copy of a training certificate as proof of attending
- Never attended training, no training took place
- Reimbursed \$1,550 fraudulently

## [Company Name] [Street Address, City, ST ZIP Code] [phone] [fax] [email]

# Training Reimbursement Recommendations

- Pay for training prior to event (not at door with personal credit card)
- Train Bookkeeper to recognize that vendor was suspect
- Sponsor should have to provide an original certificate as proof of attending training





# Recommendations Overview

- Lack of Bookkeeper Oversight
  - Scan backup documents into Docuware in a timely manner
  - Attend bookkeeper training
  - Question purchases that do not look right
- Lack of Administrator Oversight
  - Do not rubber stamp all purchase requests
  - Preauthorize all Fundraisers
  - Check up on sponsor's financial activities
- Sponsor's Ability to Circumvent Internal Controls
  - Able to initiate, authorize, and receive purchases made with her personal credit card

# Contact Information

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