

Fraud and Ethics Compliance

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**UNITED ISD
ADMINISTRATIVE LEADERSHIP ACADEMY
JULY 27, 2011**

Agenda

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- I. UISD' s Ethical Culture
- II. Understanding Fraud
- III. Examples of Fraud and Ethics Violations
- IV. Parent Organizations

Why be Ethical?

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- To protect the public trust.
- To hold ourselves to a higher standard so that the public can have faith in us, especially since we are educating their children.

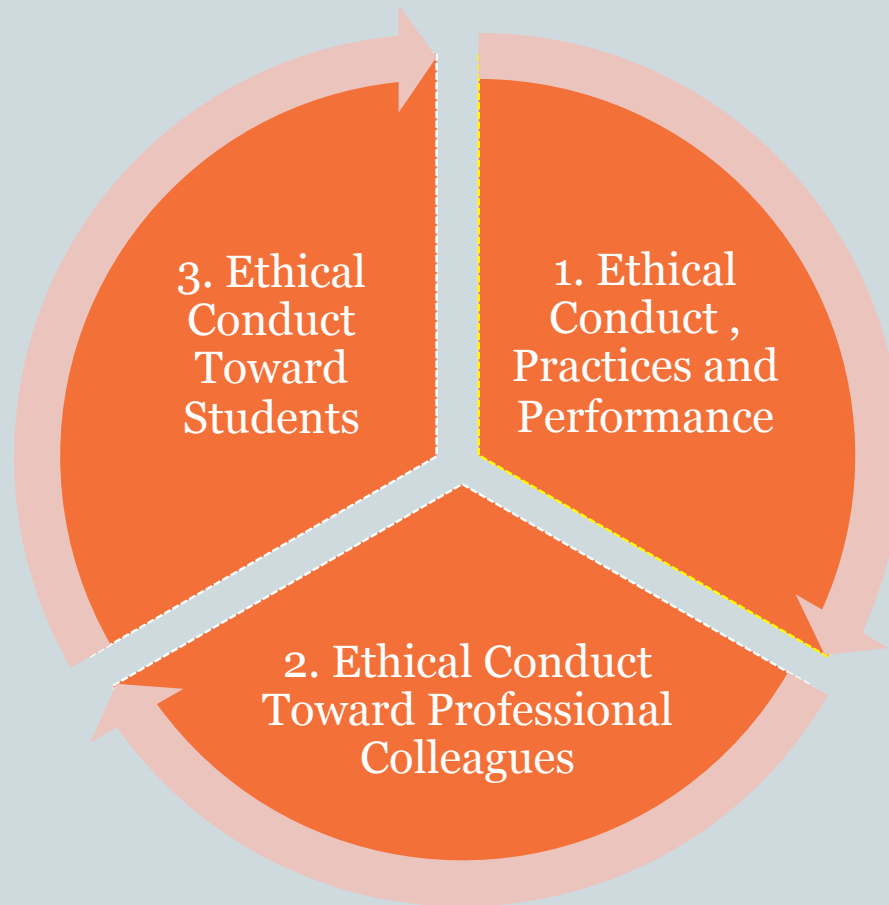
UISD' s Ethical Culture

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Texas Educator Code of Ethics

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Texas Educator Code of Ethics

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- Board Policy DH
- Updated December 26, 2010
 - Added Standards 1.9 – 1.13, 3.8 and 3.9
 - Standard 3.9 – communicating with student or minor via social media
 - Other changes in wording

Ethical violations addressed by Juan Cruz, Attorney,
in his presentation

Board Policies

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- Available on-line
www.tasb.org/policy/pol/private/240903/
- Or go to www.uisd.net, Board of Trustees tab, Board Policy Manual (lower right corner)
- Administrative Guidelines are an extension of board policies

Board Policy CAA: Financial Ethics

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See Board Policy CAA for full text

- Requires prompt reporting, investigation and follow-up of suspected fraud.
- ▶ “All Trustees, employees, vendors, contractors, consultants, volunteers, and any other parties who are involved in the District’s financial transactions shall act with integrity and diligence in duties involving the District’s fiscal resources.”

Board Policy DBD: Conflict of Interest

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See Board Policy DBD for Full Text

- An Employee shall disclose to his or her immediate supervisor a personal financial interest, a business interest, or any other obligation or relationship that in any way creates a potential conflict of interest ...

Examples:

- ▶ accepting excessive gifts from vendors,
- ▶ having ownership in a significant part of another company or business that is a vendor of UISD, or
- ▶ having close or family relationships with vendors.

Who completes a conflict of interest form?

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- **Departments**
 - Supt/Assoc. Supt./Asst. Supt./Exec. Dir.
 - Directors and the Equivalent
 - Coordinators
 - Para' s with Purchasing Responsibility
- **Campuses**
 - Principals and Magnet Deans
 - Asst. Principals
 - Secretary/Bookkeeper/Budget Tech
 - Club sponsors thru SAF training
 - **Any others who make a purchasing decision**

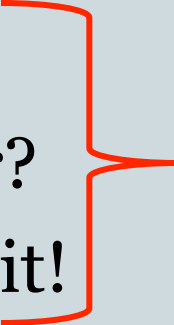
Employee Conflict of Interest Form

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- Each campus and department should scan and email to Purchasing Dept., keep originals on file
- Should be completed at least annually by September 30, 2011
- To be completed by employees in a position to affect a financial decision involving the business entity or real property
- Contact Purchasing Dept. 473-7921

The Ethics Quick Test

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- Is the action legal?
 - Does it comply with our values?
 - If you do it, will you feel bad?
 - How will it look in the newspaper?
 - If you know it's wrong, don't do it!
 - If you're not sure, ask.
 - Keep asking until you get an answer.
- 
- Personal Values

Courtesy of Texas Instruments

Fraud and Ethics “Helpline”

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- ▶ It is operated by a third party outside of Texas:
Lighthouse Services, Inc.
- ▶ a confidential reporting tool to enable employees to report fraud, ethics and compliance violations.
- ▶ Guidelines have safeguards on harassment, confidentiality and malicious allegations.
- ▶ Guidelines, Q&A, Poster is available online at www.uisd.net/departments/internal-audit

Tone at the Top

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- ▶ The ethical atmosphere created by the organization's leadership.
- ▶ Performing your duties with integrity and in an ethical manner sets the tone for your department, your campus, and the district.
- ▶ Employees pay close attention to their peers. Therefore, clearly communicate to employees the behavior that is expected of them.
- ▶ It is part of the control environment, which is part of internal controls, which helps eliminate "opportunity" in the fraud triangle.

Tone at the Top

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- Key to the success of ... well, almost everything.
- Without it, “an entire culture of workplace fraud” can take root, according to the ACFE.
 - Example: Atlanta Public Schools cheating scandal 7/2011
 - NY Times “that since former Superintendent Beverly L. Hall “was feared by teachers and principals,” there was little success in investigating rumors of “widespread” cheating.

What is Fraud?

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- Fraud, unlike an error, is intentional and usually involves deliberate concealment of facts.
- Generally, when fraud occurs, one or more of the three elements of fraud are present ...

Elements of Fraud – Fraud Triangle

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Opportunity



**Fraud
Triangle**

Incentive/Pressure

Rationalization

Fraud Triangle

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▶ **Opportunity**

- Absence of internal controls
- Lack of adequate supervision and review
- This is the one that WE can control! Tone at the Top!

▶ **Incentive/Pressure** - Reason or pressure to commit fraud

- inability to pay one's bills,
- drug or gambling addiction,
- desire for status symbols – house, car, etc.
- Need to meet performance standards

▶ **Rationalization** - Justify the crime

- I was only borrowing the money
- I had to steal to provide for my family
- I was underpaid

Fraud and Ethics

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- ▶ Ethical Lapses - Deviation or abandonment of the principles that govern an individual or profession.
- ▶ Most day-to-day decisions are routine and only have minor consequences. But, over time, some decisions are made that lead to behavior that could cause life altering consequences.
- ▶ **Good news !!!** There are laws, policies and supportive individuals that can help us make good choices.

Fraud/Ethics in School Districts

- Bookkeeper took \$3,000 in student activity funds by not issuing receipts to sponsors. Sponsors had grown to trust the bookkeeper and knew they would get a receipt when she had time.
- Unauthorized fundraiser held thru “booster” but neither booster nor student activity received funds.
- Sponsor deposited cheer uniform money 6 months late, in \$100 bills.
- A secretary was responsible for distributing laptops to various campus and she did, but unfortunately 12 of them ended up in her residence.

Fraud/Ethics in School Districts

- Sponsor opened a bank account and deposited donations from the community. He then proceeded to use the debit card account for personal expenses. His justification was that he had put down a deposit for the banquet catering using his personal funds, but he could not substantiate this with a receipt. It was easy to catch because the sponsor used the District address and we received the bank statement.
- Keypunch error resulted in \$ overpayment to employee, but employee had not noticed until district called ... months later.

Fraud/Ethics in School Districts

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- Secretary would take lunch break from 11:30 to 1:30 – but punched as going to lunch at 1:30, worked in her station and at 2:30 punched that she was back to work. Stealing company time.
- VOE student who used the routing information from his paycheck to order a magazine subscription. He set it up to debit district account on a monthly basis. The bank reconciliation saved the district and they now have debit block at the bank. Student claimed he did not know what he had done.

Fraud/Ethics in School Districts

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- Coach would place his “academically-challenged” athletes in classes taught by new teachers, who didn’t have tenure and would then have the principal threaten them w/non-renewal of their contracts if they didn’t change grades or provide multiple opportunities for the students to retake the exam. Discovered when teacher came forward.
- Teacher collected cash from the other staff members to purchase a dinner for a teacher whose father had passed away and then paid for the food w/school funds and pocketed the cash.

Fraud/Ethics (NOT a school district)

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- An employee was approved to attend an out of town workshop. The workshop was cancelled and the employee was aware of it, but went anyway. The employee got caught because the hotel bill had multiple parking fees for leaving and re-entering the parking garage throughout the day when he was supposed to be attending the workshop and were not supposed to have a car. The employee had driven to Houston with family for this “free” vacation.

Fraud/Ethics in School Districts

- At an elementary school, there was an all-school fundraiser that was completely handled by the school secretary. She was not doing her other duties as the principal expected and was told she would be let go. Unexpectedly, she quit before the date she was to be released. An audit of her books after she left, found records of collections for the fundraiser, but no records that all the money was ever deposited. Since only she handled the fundraiser, no one knew where the unsold items were, why the money was not deposited, who had paid and who had not.

Fraud/Ethics in School Districts

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- At a high school the assistant principal's office collected for parking stickers and issued cash receipts to purchasers. They would send the money they collected to the secretary in a brown interoffice envelope. One envelope containing \$2,600 was never deposited. Further investigation revealed she was holding back cash and depositing checks.
- At an elementary school, the school secretary made checks out to her and family, but recorded as vendor on books. The loss that they could prove was over \$26,000.

Fraud/Ethics in School Districts

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- Auditors were scheduled to do an activity fund audit at a school. Early that morning, the office manager called and said she needed to come talk. When asked why, she said that she had been stealing money. Audit revealed missing funds and lax internal controls over safeguarding funds, issuing receipts, timely deposits, and preparing monthly reports.

Atlanta Public Schools 7/2011

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- The [AP](#) (7/18, Turner) reports, "Teachers spent nights huddled in a back room, erasing wrong answers on students' test sheets and filling in the correct bubbles. At another school, struggling students were seated next to higher-performing classmates so they could copy answers." The article details "those and other confessions" from the report.

Atlanta Public Schools 7/2011

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- The piece notes that educators were "pressured to maintain high scores under the federal No Child Left Behind law," adding that the report said that principals "punished or fired those who reported anything amiss and created a culture of 'fear, intimidation and retaliation.' ... One teacher told investigators the district was 'run like the mob.'

Parent Organizations

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**UNITED ISD
ADMINISTRATIVE LEADERSHIP TRAINING
JULY 27, 2011**

Parent Organizations

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- Revised Local Policy GE – July 2010
 - Parent organizations are **separate entities** from the district
 - Board is responsible for the **oversight** of parent or booster organizations that use the District or a campus name
 - Must **comply with general guidelines** in policy and with the District's Parent Organization Guidelines
 - Defines the Superintendent's **designee**
 - Requires a **district liaison for each parent organization**, usually the coach or sponsor of the particular student group
 - Superintendent or designee has the **authority to revoke** the recognition of the group or disallow the continued association of any school program with a parent organization

Parent Organizations (Cont' d)

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- Excerpt of general guidelines
 - Operate under a constitution/bylaws
 - Maintain a list of current of officers and designated check signers - submitted to designee
 - Conduct all business in an open meeting
 - Report minutes of last meeting and a **treasurer's report** at each meeting with copy of both to designee

Parent Organizations (Cont' d)

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- Parent Organization Guidelines on the district website under FOR PARENTS tab
- www.uisd.net/wp-content/uploads/2010/09/2010-2011-Parent-Org-Guidelines-rev-9.10.pdf
- Advise your PTC and booster club presidents of the revised policy and have them sign they received a copy of both policy and Parent Organization Guidelines
- Parent Volunteer Packet should be completed by officers and others working with students

Parent Organizations (Cont' d)

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Main Issues in 2010-2011:

- No parent group contact information on file
- Sponsor used parent group to avoid student activity fund controls.
- Unauthorized parent group fundraisers.
- Not requesting parent group treasurer' s reports.
- Untimely fundraising deposits
- No oversight from designee, where' s fundraising \$?
- Parent Group with 1 member.

Contact Information

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- United ISD Internal Audit Dept. 473-6252
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