



Addressing Fraud, Waste, and Abuse in our Schools

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Learning Objectives

- ▶ What is Fraud, Waste, and Abuse
- ▶ How to prevent fraud, waste, and abuse
- ▶ How to identify Red Flags
- ▶ How Red Flags lead to detection





Fraud, waste, and abuse defined

Fraud includes, but is not limited to, fraudulent financial reporting, misappropriation of assets, corruption, and use of public funds for activities prohibited by the constitution or laws of the State of New Mexico.

Fraudulent financial reporting means intentional misstatements or omissions of amounts or disclosures in the financial statements to deceive financial statement users, which may include intentional alteration of accounting records, misrepresentation of transactions, or intentional misapplication of accounting principles.

Misappropriation of assets means theft of an agency's assets, including theft of property, embezzlement of receipts, or fraudulent payments.

Corruption means bribery and other illegal acts.

Waste is the act of using or expending resources carelessly, extravagantly, or to no purpose.

Abuse involves behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary operational practice given the facts and circumstances. This includes the misuse of authority or position for personal gain or for the benefit of another.

Occupational Fraud is defined by the ACFE as:

“ the use of one's occupation for personal enrichment through the deliberate misuse or misapplication of employing organization's resources or assets”

Prevention

- ▶ Identify six strategies for preventing fraud, waste, and abuse
- ▶ Identify methods for implementing the strategies



How to prevent fraud, waste, and abuse

- ▶ Stronger Internal Controls
 - ▶ Segregation of duties
 - ▶ Consistent examination of support
 - ▶ Timely reconciliations
 - ▶ Safeguarding assets
- ▶ Monitoring and conducting surprise audits
 - ▶ Observe cash collections
 - ▶ Review cleared checks for gaps in sequence
 - ▶ Verify/Validate vendors
- ▶ Analyze data
 - ▶ Compare data with expectations and prior period data
- ▶ Training of all employees to recognize red flags
- ▶ Do not permit management override without board approval
- ▶ Utilize a fraud hotline



Red Flags

- What is a red flag for fraud, waste, or abuse
- Why it is important to identify red flags
- Red Flag indicators
- Responsibility for recognizing red flags



What is a Red Flag?

- ▶ It is a warning sign that something could be or is wrong. It does not indicate guilt or innocence.
- ▶ A red flag is a set of circumstances that are unusual in nature or vary from the normal activity. It is a signal that something is out of the ordinary and may need to be investigated further.





Importance of a Red Flag



- ▶ Fraud starts small and then gets bigger and bigger, until something becomes noticeably different or unusual
- ▶ The identification of a Red Flag allows for the proper monitoring of a situation and the ability to take corrective action if necessary
- ▶ Don't ignore a red flag...be measured and responsible
 - ▶ Studies of fraud cases consistently show that red flags were present, but were either not recognized or were recognized but not acted upon by anyone.
 - ▶ Red flags should lead to some kind of appropriate action, however, sometimes an error is just an error and no fraud has occurred.

Red Flag indicators in schools

- ▶ No separation of duties
- ▶ Missing school funds or property
- ▶ Inventory and financial records not reconciled
- ▶ Suspicious or non-verifiable existence of vendor
- ▶ Unauthorized or related-party transactions
- ▶ Altered, inadequate, or missing documentation
- ▶ Grant award money runs out too quickly
- ▶ Poor grant performance or objectives not met
- ▶ Unreasonable costs
- ▶ Employees living above their means
- ▶ Delayed or no reporting



Responsibility for recognizing red flags?

- ▶ Employees
- ▶ Management
- ▶ Auditors

You don't have to be a bean counter



- ▶ Everyone has a responsibility to recognize red flags as we are all stewards of public money.

Detection

- ▶ Red flags identify unusual events that should be further investigated.
- ▶ Monitoring and investigation provides for the ability to take corrective action



Conclusion

Monitoring, detection and corrective action lead to prevention

