



Identifying and Dealing With Fraud and Abuse

September 9, 2003
3:00 – 6:40 pm



| Vendor History Report | | | | | | | | | | | | | | |
|-----------------------|-------------|------------|------------|----------|--------|---------|----------------|----------|----------|-----------|----------|-----------|-----------|------|
| Vendor ID: 0855 | | | | | | | | | | 8/29/2001 | 10:02 AM | | | |
| Entity: | | | | | | | | | | Page | | | | |
| Vendor ID | Vendor Name | Invoice # | Invoice ID | Inv Date | Entity | Due No. | Discount taken | Debit | Credit | Balance | | | | |
| Control # | Check # | Check Dat | | | | | | | | | | | | |
| 0855 POWERWASH | | | | | | | | | | | | | | |
| Beginning Balance: | | | | | | | | | | | 0.00 | | | |
| VCH09859 | MT10020 | 3/1/2000 | FF | Paid | | | | 969.15 | 969.15 | | | | | |
| VCH09889 | MT10020 | 3/1/2000 | FF | Paid | | | | 969.15 | 1,938.30 | | | | | |
| VCH10404 | MT00200103 | 3/18/2000 | FF | Paid | | | | 2,923.78 | 4,862.08 | | | | | |
| 4216 | 45028 | 4/8/2000 | FF | Paid | | | 0.00 | 969.15 | 3,892.91 | | | | | |
| 4216 | 45028 | 4/8/2000 | FF | Paid | | | 0.00 | 969.15 | 2,923.78 | | | | | |
| VCH11462 | MT00200104 | 5/31/2000 | FF | Paid | | | | 2,178.26 | 5,102.02 | | | | | |
| VCH12755 | MT00200105 | 6/30/2000 | FF | Paid | | | | 4,356.51 | 9,458.53 | | | | | |
| 4973 | 45924 | 6/8/2000 | FF | Paid | | | 0.00 | 2,923.78 | 6,534.77 | | | | | |
| 5814 | 46763 | 7/24/2000 | FF | Paid | | | 0.00 | 2,178.26 | 4,356.51 | | | | | |
| 6153 | 47096 | 6/8/2000 | FF | Paid | | | 0.00 | 4,356.51 | 0.00 | | | | | |
| VCH15599 | MT00200106 | 11/19/2000 | FF | Paid | | | | 1,891.71 | 1,891.71 | | | | | |
| 7724 | 48624 | 11/9/2000 | FF | Paid | | | 0.00 | 1,891.71 | 2,318.51 | | | | | |
| VCH17261 | MT00200107 | 11/19/2000 | FF | Paid | | | | 2,318.51 | 2,318.51 | | | | | |
| 684 | 49354 | 12/18/2000 | FF | Paid | | | 0.00 | 2,318.51 | 2,951.71 | | | | | |
| VCH18707 | MT00200108 | 11/19/2000 | FF | Paid | | | | 2,951.71 | 0.00 | | | | | |
| 1741 | 50442 | 2/18/2001 | FF | Paid | | | 0.00 | 2,951.71 | 3,260.20 | | | | | |
| VCH21430 | MT00200110 | 4/4/2001 | FF | Paid | | | | 3,260.20 | 3,260.20 | | | | | |
| VCH23375 | MY00200111 | 4/7/2001 | FF | Paid | | | | 2,357.64 | 5,600.53 | | | | | |
| 2789 | 51028 | 4/12/2001 | FF | Paid | | | 0.00 | 2,357.64 | 3,443.59 | | | | | |
| 3279 | 52074 | 5/2/2001 | FF | Paid | | | 0.00 | 3,260.20 | 183.09 | | | | | |
| VCH24773 | MT00200112 | 6/23/2001 | FF | Paid | | | | 2,520.73 | 1,185.57 | | | | | |
| 4848 | 53821 | 7/17/2000 | FF | Paid | | | 0.00 | 2,520.73 | 2,357.64 | | | | | |
| 4646 | 53821 | 7/17/2000 | FF | Paid | | | 0.00 | 2,171.27 | 0.00 | | | | | |
| VCH21519 | MT00200110 | 2/23/2001 | FF | Paid | | | | 2,357.64 | 0.00 | | | | | |
| Currency totals: | | | | | | | | | | | 0.00 | 28,888.60 | 28,888.60 | 0.00 |

Agenda

| Time | Topic | Presenters |
|----------------|-----------------------------------|---|
| 3:00 – 3:05 pm | Introduction | Tom White, MSBO |
| 3:05 – 3:45 pm | The Basics of Fraud & Abuse | David Wells, Plante & Moran, PLLC Sherry Buiet, Standard Federal Bank |
| 3:45 – 4:05 pm | Property/Employee Theft | Tom DeClercq, Michigan State Police |
| 4:05 – 4:20 pm | Questions and Answers | Various Speakers |
| 4:20 – 4:50 pm | Legal/Policy Issues | Roy Henley, Thrun, Maatsch & Nordberg P.C. |
| 4:50 – 5:00 pm | Break | |
| 5:00 – 5:30 pm | Public Relations in the Aftermath | Janet Roberts, Huron Valley Schools |
| 5:30 – 6:40 pm | Roles, Responsibilities & Ethics | Mari McKenzie, Yeo & Yeo; Fred Haller, Plante & Moran, PLLC; Ric Peterson, MSBO |

| STATEMENT OF ACCOUNT | | | | | | | | | | | | | |
|--|-----------|------------------|------------------|--------------|------------------|-----------|------------------|--------------|----------|----------------|------------------|-------|-----------|
| Statement Period June 01, 2002 thru June 30, 2002 | | | | | | | | | | | | | |
| Account Number: _____ | | | | | | | | | | | | | |
| BUSINESS CHECKING ACCOUNT DETAIL (CONT.) | | | | | | | | | | ACCOUNT NUMBER | | | |
| CHECK ACTIVITY (CONT.) | | | | | | | | | | | | | |
| Check Number | Amount | Date Paid | Reference Number | Check Number | Amount | Date Paid | Reference Number | Check Number | Amount | Date Paid | Reference Number | | |
| 0394 | 1,402.50 | 06/03 | 0020242302 | 0392 | 30.00 | 06/12 | 0020242302 | 0393 | 30.00 | 06/12 | 0020242302 | | |
| 0395 | 9.50 | 06/04 | 0020242302 | 0394 | 101.00 | 06/20 | 0020242302 | 0395 | 30.00 | 06/20 | 0020242302 | | |
| 0396 | 8.00 | 06/04 | 0020242302 | 0396 | 800.00 | 06/28 | 0020242302 | 0397 | 1.00 | 06/28 | 0020242302 | | |
| 0397 | 9.00 | 06/04 | 0020242302 | 0398 | 1,100.00 | 06/28 | 0020242302 | 0399 | 1.00 | 06/28 | 0020242302 | | |
| 0398 | 75.00 | 06/04 | 0020242302 | 0400 | 50.00 | 06/17 | 0020242302 | 0401 | 50.00 | 06/17 | 0020242302 | | |
| 0399 | 17,212.00 | 06/05 | 0020242302 | 0402 | 99.01 | 06/19 | 0020242302 | 0403 | 99.01 | 06/19 | 0020242302 | | |
| 0400 | 1,416.00 | 06/10 | 0020242302 | 0404 | 35.00 | 06/21 | 0020242302 | 0405 | 35.00 | 06/21 | 0020242302 | | |
| 0401 | 1,416.00 | 06/10 | 0020242302 | 0406 | 147.00 | 06/23 | 0020242302 | 0407 | 147.00 | 06/23 | 0020242302 | | |
| 0402 | 151.50 | 06/13 | 0020242302 | 0408 | 450.00 | 06/23 | 0020242302 | 0409 | 450.00 | 06/23 | 0020242302 | | |
| 0403 | 1,177.00 | 06/14 | 0020242302 | 0410 | 100.00 | 06/19 | 0020242302 | 0411 | 100.00 | 06/19 | 0020242302 | | |
| 0404 | 2,177.00 | 06/14 | 0020242302 | 0412 | 150.01 | 06/26 | 0020242302 | 0413 | 150.01 | 06/26 | 0020242302 | | |
| 0405 | 1,177.00 | 06/14 | 0020242302 | 0414 | 150.01 | 06/26 | 0020242302 | 0415 | 150.01 | 06/26 | 0020242302 | | |
| 0406 | 90.00 | 06/15 | 0020242302 | 0416 | 100.00 | 06/26 | 0020242302 | 0417 | 100.00 | 06/26 | 0020242302 | | |
| 0407 | 90.00 | 06/15 | 0020242302 | 0418 | 50.00 | 06/23 | 0020242302 | 0419 | 50.00 | 06/23 | 0020242302 | | |
| 0408 | 125.00 | 06/17 | 0020242302 | 0420 | 18.00 | 06/22 | 0020242302 | 0421 | 18.00 | 06/22 | 0020242302 | | |
| 0409 | 125.00 | 06/17 | 0020242302 | 0422 | 229.25 | 06/22 | 0020242302 | 0423 | 229.25 | 06/22 | 0020242302 | | |
| 0410 | 3,061.50 | 06/17 | 0020242302 | 0424 | 2.00 | 06/22 | 0020242302 | 0425 | 2.00 | 06/22 | 0020242302 | | |
| 0411 | 3,061.50 | 06/17 | 0020242302 | 0426 | 1.00 | 06/22 | 0020242302 | 0427 | 1.00 | 06/22 | 0020242302 | | |
| 0412 | 19,000.00 | 06/18 | 0020242302 | 0428 | 2.00 | 06/22 | 0020242302 | 0429 | 2.00 | 06/22 | 0020242302 | | |
| 0413 | 19,000.00 | 06/18 | 0020242302 | 0430 | 1,970.00 | 06/22 | 0020242302 | 0431 | 1,970.00 | 06/22 | 0020242302 | | |
| 0414 | 26.00 | 06/19 | 0020242302 | 0432 | 26.00 | 06/22 | 0020242302 | 0433 | 26.00 | 06/22 | 0020242302 | | |
| Number of Checks | | | | | | | | | | | 108 | Total | 97,909.96 |
| *Indicates a stop or suspended number. | | | | | | | | | | | | | |
| DAILY CHECK SUMMARY | | | | | | | | | | | | | |
| Date Paid | Amount | Number of Checks | Date Paid | Amount | Number of Checks | | | | | | | | |
| 06/03 | 10,402.50 | 10 | 06/13 | 259.00 | 3 | | | | | | | | |
| 06/04 | 20,805.00 | 5 | 06/15 | 33,514.00 | 6 | | | | | | | | |
| 06/05 | 4,870.00 | 2 | 06/17 | 26,111.00 | 8 | | | | | | | | |
| 06/19 | 1,424.00 | 6 | 06/19 | 36,191.01 | 6 | | | | | | | | |

David Wells Plante & Moran, PLLC

The Basics of Fraud and Abuse

| RECEIPTS & EXPENDITURE SUMMARY | | | | | | | | | | | |
|--------------------------------|----------------------------|---------------------|--------------|---------------|----------------|--|--|--|--|--|--|
| ACCOUNTS | OPENING BALANCE | REVENUE | EXPENDITURES | TRANSFERS | ENDING BALANCE | | | | | | |
| | \$ - | \$ - | \$ - | \$ - | \$ - | | | | | | |
| | \$ - | \$ - | \$ - | \$ - | \$ - | | | | | | |
| | \$ - | \$ - | \$ - | \$ - | \$ - | | | | | | |
| | \$ - | \$ - | \$ - | \$ - | \$ - | | | | | | |
| | \$ - | \$ - | \$ - | \$ - | \$ - | | | | | | |
| | \$ - | \$ - | \$ - | \$ - | \$ - | | | | | | |
| | \$ - | \$ - | \$ - | \$ - | \$ - | | | | | | |
| | \$ - | \$ - | \$ - | \$ - | \$ - | | | | | | |
| | \$ - | \$ - | \$ - | \$ - | \$ - | | | | | | |
| | \$ - | \$ - | \$ - | \$ - | \$ - | | | | | | |
| TOTAL LEDGER BALANCES: | \$ 95,983.35 | \$ 75,778.00 | \$ 84,358.92 | \$ - | \$ 87,102.43 | | | | | | |
| BANK RECONCILIATION | | | | | | | | | | | |
| | ENDING BALANCE - | CHECKING STATEMENT | \$ | 47,210.98 | | | | | | | |
| | ENDING BALANCE - | Mem Fund - Sav | \$ | 2,259.35 | | | | | | | |
| | ENDING BALANCE - | Mem Fund - Time Dep | \$ | 825.85 | | | | | | | |
| | ENDING BALANCE - | Am Fund - Time Dep | \$ | 7,062.93 | | | | | | | |
| | ENDING BALANCE - | Time Dep | \$ | 5,000.00 | | | | | | | |
| | ENDING BALANCE - | Time Dep | \$ | 10,500.00 | | | | | | | |
| | TOTAL DEPOSITS IN TRANSIT: | | \$ | 14,744.31 | | | | | | | |
| | TOTAL OUTSTANDING CHECKS: | | | | | | | | | | |
| | ADJUSTED BANK BALANCE: | | \$ | 87,102.43 | | | | | | | |
| NOTES: | DIFFERENCE: | | \$ | - | | | | | | | |
| ASSISTANT PRINCIPAL: | | | | DATE: 7/23/02 | | | | | | | |
| PREPARED BY: | | | | DATE: 7/23/02 | | | | | | | |

Financial Services

SHAREHOLDER STATEMENT

| Trans Date | TRANSACTION DESCRIPTION | DOLLAR AMOUNT | PRICE PER SHARE | SHARES THIS TRANSACTION | TOTAL SHARES OWNED |
|------------|-------------------------|---------------|-----------------|-------------------------|--------------------|
| 03-01 | BALANCE FORWARD | | | | 352,662.570 |
| 03-13 | PURCHASE | 500,000.00 | 1.000 | 500,000.000 | 852,662.570 |
| 03-18 | REDEMPTION | 600,000.00 | 1.000 | 600,000.000 | 252,662.570 |
| 03-22 | PURCHASE | 1,900,000.00 | 1.000 | 1,900,000.000 | 2,152,662.570 |
| 03-25 | REDEMPTION | 250,000.00 | 1.000 | 250,000.000 | 1,902,662.570 |
| 03-26 | REDEMPTION | 200,000.00 | 1.000 | 200,000.000 | 1,702,662.570 |
| 03-31 | DIVIDEND REINVESTED | 300,000.00 | 1.000 | 300,000.000 | 1,402,662.570 |
| | | 1,407.59 | 1.000 | 1,407.590 | 1,404,070.160 |

STATEMENT DATE: 03-31-02
 SEC. REG. NUMBER: 5,466,83
 CAPITAL GAINS: 0.00
 CURRENCY CODE: 0
 SHARES: 1,404,070.160
 TOTAL: 1,404,070.160

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The Fraud Triangle (Continued)

OPPORTUNITY

- Lack of circumvention of internal controls
- Past failure to discipline embezzlers
- Management apathy
- Ignorance or incapacity to detect fraud
- Lack of an audit trail

Pressures/Motives

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Financial Services

SHAREHOLDER STATEMENT

| Trans Date | TRANSACTION DESCRIPTION | DOLLAR AMOUNT | PRICE PER SHARE | SHARES THIS TRANSACTION | TOTAL SHARES OWNED |
|------------|------------------------------|---------------|-----------------|-------------------------|--------------------|
| 03-01 | BALANCE FORWARD | | | | 352,662.570 |
| 03-13 | PURCHASE | 500,000.00 | 1.000 | 500,000.000 | 852,662.570 |
| 03-18 | REDEMPTION | 600,000.00 | 1.000 | 600,000.000 | 252,662.570 |
| 03-22 | PURCHASE | 1,900,000.00 | 1.000 | 1,900,000.000 | 2,152,662.570 |
| 03-25 | REDEMPTION | 250,000.00 | 1.000 | 250,000.000 | 1,902,662.570 |
| 03-26 | PURCHASE CORRECTION 07-25-02 | 50,328.45 | 1.000 | 50,328.450 | 1,952,991.020 |
| 03-27 | REDEMPTION | 200,000.00 | 1.000 | 200,000.000 | 1,752,991.020 |
| 03-28 | REDEMPTION | 300,000.00 | 1.000 | 300,000.000 | 1,452,991.020 |
| 03-31 | DIVIDEND REINVESTED | 1,407.59 | 1.000 | 1,407.590 | 1,454,398.610 |

STATEMENT DATE: 03-31-02
 SEC. REG. NUMBER: 5,466,83
 CAPITAL GAINS: 0.00
 CURRENCY CODE: 0
 SHARES: 1,454,398.610
 TOTAL: 1,454,398.610

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The Fraud Triangle (Continued)

RATIONALIZATION

- The Organization owes it to me
- I am only borrowing the money
- They can afford it
- I deserve more
- It's for a good purpose

Pressures/Motives

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The Fraud Triangle

PRESSURES/MOTIVES

- Greed
- Living beyond one's means
- High personal debt
- High medical bills
- Poor credit
- Personal financial loss
- Unexpected financial needs
- Addictions
- Extramarital affairs

Pressures/Motives

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Definitions

- Fraud
- Internal Fraud vs. External Fraud
- Embezzlement vs. Larceny

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Profile of an Embezzler

- Tends to be a trusted employee
- Works long hours
- Dislikes mandatory vacation policy and cross training
- Likeable and generous (especially with new source of wealth)
- Personality may change, moodiness may set in, when stress of embezzlement catches up to them or when they feel they are about to be caught
- Deceptive and are usually quite good at lying

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Vulnerabilities

- Symptoms of Organizations that are vulnerable to fraud:
 - An Organization that has experienced a recent fraud and the perpetrator(s) did not receive sufficient discipline
 - Accounting anomalies – the numbers just don't make sense
 - Frequent overdrafts in Company bank accounts
 - Bank reconciliations not prepared timely
 - Extravagant lifestyles of employees that seem incongruent with their compensation

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Embezzlement Insights

- Embezzlement occurs when money is taken before or after it hits the bank.
- Taking money before it hits the bank is a little more risky because customers' accounts will have to be adjusted to conceal the embezzlement.
- Embezzlements start out small by "testing the waters" and grow over time. Thus, when discovered, it is usually at its highest level.

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Vulnerabilities (Continued)

- Unusual behavior of key employees
 - Depression
 - Addiction
 - Mood swings
- Rumors, tips and complaints from customers, suppliers and employees
- Management and/or employee circumvention of internal controls
- High employee turnover

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Embezzlement Insights (Continued)

- Embezzlers don't quit embezzling when they think they have taken enough. They quit embezzling when they are either close to getting caught or there is no more money left.
- Embezzlers get bolder and sloppier over time.
- The signs are usually there.

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Vulnerabilities (Continued)

- Poor morale
- The Organization that is going through downsizing
- Frequent changes in management
- Reluctance of key employees to take vacations
- Something just doesn't feel right

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Common Schemes

- **Small organizations tend to be more vulnerable to embezzlement due to less stringent controls and lack of segregation of duties. The most common frauds are asset misappropriations involving an Organization's cash and checking accounts. Some of the most common embezzlement schemes include:**

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Fraud Indicators

- **ACCOUNTS RECEIVABLE/SALES**
 - Customer invoices billed out of sequence
 - Gaps in invoice numbers
 - Customer address on invoices different than the address listed in customer master file
 - Multiple shipping addresses used for the same customer
 - Manual, non-cash debit/credit adjustments made to customer files
 - Customers with credit balances

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Common Schemes (Continued)

- Lapping Schemes
- Checks written to the embezzler and cashed
- Checks written for embezzler's personal expenses, i.e. car payments, utility bills, credit cards)
- Checks written to fictitious vendors or businesses owned by the embezzler
- Wire transfers from the Organization to the embezzler's personal accounts
- Intercepting checks made out to the Organization and directing the bank to cash and convert them to cashier checks

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Fraud Indicators (Continued)

- **ACCOUNTS RECEIVABLE/SALES (continued)**
 - Customers whose addresses are the same as employee addresses
 - Significant delinquent balances among newer customers
 - Accounts written off shortly after being established, particularly ones on which no payments were recorded
 - Unusual items or patterns
 - Changes or anomalies in composition of sales
 - Sale voids/refunds by location, employee, customer, etc.

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Common Schemes (Continued)

- Expense report fraud – duplicate submissions, over submissions
- Changing amounts on checks to vendors, initialing the new amounts, and splitting the difference with the vendor
- Overpayments to vendors and having the refunds mailed to the perpetrator
- Signing over ghost-employee checks
- Cashing checks made out to a business
- Forged checks
- Fraudulent endorsements

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Fraud Indicators (Continued)

- **ACCOUNTS PAYABLE/PAYROLL**
 - No confirmation process for wire transfers
 - Electronic checks
 - Duplicate/over-payments to vendors
 - Creation of fictitious vendor – how easy is it to set up a vendor?
 - Monitoring of vendor maintenance files
 - Checks issued out of sequence – review the beginning part of the bank statement

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Fraud Indicators (Continued)

- **ACCOUNTS PAYABLE/PAYROLL (continued)**
 - Vendors and employees whose addresses are post office boxes
 - Vendors and employees who have the same address and/or phone number
 - Vendors/employees whose address and/or phone number does not match with directories
 - Vendors with no or disconnected phone numbers
 - Vendors that have been recently added and old vendors that have been deleted

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Fraud Indicators (Continued)

- **ACCOUNTS PAYABLE/PAYROLL (continued)**
 - Individual endorsing the backside of a check issued to a business
 - Checks with signature stamps
 - Missing cancelled checks that are listed on the bank statements
 - Check amounts recorded through journal entries rather than through check/disbursement registers or modules

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Fraud Indicators (Continued)

- **ACCOUNTS PAYABLE/PAYROLL (continued)**
 - Checks issued to vendors not on an approved vendor list
 - Checks issued to unfamiliar vendors whose names are similar to legitimate vendor names
 - Checks issued to vendors that fall under the threshold that would normally require further management authorization
 - Checks coded to unusual balance sheet or expense accounts
 - Dual endorsees on the backside of the check
 - Individual endorsing the backside of a check issued to a business

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Fraud Indicators (Continued)

- **ACCOUNTS PAYABLE/PAYROLL (continued)**
 - Payments for services that do not require delivery of goods or significant documentation to obtain payments. (For example payment of commissions or consulting fees.)
 - Vendors in which client is sole customer, based on the vendor using consecutive invoice numbers over an extended period of time
 - Manual, non-cash debit/credit adjustments made to vendor files

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Fraud Indicators (Continued)

- **ACCOUNTS PAYABLE/PAYROLL (continued)**
 - Checks with signature stamps
 - Missing cancelled checks that are listed on the bank statements
 - Checks issued to unfamiliar vendors whose names are similar to legitimate vendor names
 - Checks issued to vendors that fall under the threshold that would normally require further management authorization
 - Checks coded to unusual balance sheet or expense accounts
 - Dual endorsees on the backside of the check

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Fraud Indicators (Continued)

- **ACCOUNTS PAYABLE/PAYROLL (continued)**
 - Vendor master files that have been recently edited
 - Vendors with debit balances
 - Invoices with even dollar charges
 - Vendors with non-matching "bill to" and "ship to" addresses
 - Employees who have not executed tax withholding forms, health insurance benefits, or have not claimed health benefits in the current year

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Fraud Indicators (Continued)

⊗ ACCOUNTS PAYABLE/PAYROLL (continued)

- Inactive employees who are receiving payroll checks
- Employees with inactive/bogus social security numbers
- Multiple employees with the same social security number

⊗ GENERAL LEDGER/REPORTS

- Journal entries with no description
- Journal entries using "misc", miscellaneous", or "adjust"
- Journal entries to "Cash" accounts
- Bank reconciling items
- Fraudulent bank statements

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Fraud Prevention (Continued)

- Have bank reconciliations performed in a timely manner by individuals who do not have access to accounting records and who do not process checks or deposits
- Implement Positive Pay
- Perform background checks
- Secure check stock and build check security features into checks
- Secure signature stamps

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Key Documents

- ⊗ Bank statements
- ⊗ Checks
- ⊗ Bank reconciliations
- ⊗ General ledgers
- ⊗ Journal entries
- ⊗ Vendor master files
- ⊗ Payroll master files

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Fraud Prevention (Continued)

- Implement a Hotline service
- Rotate job responsibilities without notice
- Enforce mandatory vacations
- Implement a good system of internal controls, including segregation of duties
- Create a positive and open work environment

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Fraud Prevention

⊗ Many frauds are discovered by accident or through anonymous tips. The following are preventive measures that Organizations can employ to reduce the possibility of embezzlement:

- Set the proper tone at the top of the Organization
- Mail monthly bank statements to the home of the Owner/CEO or to the office of a Board member
- Perform Specialized Internal Control Reviews

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Sherry Buist Standard Federal Bank

Member ABN AMRO GROUP



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INTERNAL THEFT

Principal Categories of White Collar Crime

- Theft of Money or Property ←
- Theft of Trade Secrets
- Conflicts of Interest
- Breach of Fiduciary Duty
- Bribery
- Concealment of Material Facts
- Misrepresentation of Material Facts

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INTERNAL THEFT

Larceny: The wrongful taking of money or property of another with the intent to convert or to deprive the owner of its possession and use.

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INTERNAL THEFT

Embezzlement: To appropriate fraudulently to one's own use, money or property entrusted to one's care.

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INTERNAL THEFT

Elements of Embezzlement/Defalcation:

1. The suspect took or converted...
2. Without the knowledge or consent of the owner...
3. Money or Property of another...
4. That was entrusted to the suspect.

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INTERNAL THEFT

Defalcation: Misappropriation of money held by an Official, Trustee, or Other Fiduciary.

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2002 Report to the Nation on Occupational Fraud & Abuse

- The Wells Report covers 633 occupational fraud cases that caused over \$7 billion in losses.
- More than half the thefts caused a loss of at least \$100,000.
- Typical perpetrator is a first time offender.

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2002 Report to the Nation on Occupational Fraud & Abuse

- Cash is a target 90% of the time.
- Small businesses are the most vulnerable for fraud & abuse with average losses of \$127,000 as compared to larger business whose average loss was \$97,000.
- The average scheme lasted 18 months.

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2002 Report to the Nation on Occupational Fraud & Abuse

- Internal audits, external audits, and background checks also significantly reduce losses.
- The Wells Report estimated that 6% of revenues in 2002 would be lost to fraud & abuse.

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2002 Report to the Nation on Occupational Fraud & Abuse

- Fraudulent statements are the most costly form of fraud with median losses of \$4.25 million per scheme.
- Corruption schemes accounts for 13% of reported frauds and cause more than \$500,000 in losses on average.

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2002 Report to the Nation on Occupational Fraud & Abuse

The Perpetrators:

1. Position: Schemes committed by Managers & Executives, on average cause a median loss of \$250,000.
2. Collusion: When collusion is involved median loss increased to \$450,000 per case.

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2002 Report to the Nation on Occupational Fraud & Abuse

- Most common method of detection was by a tip from an employee, customer, vendor, or anonymous source. Second most common method of detection was "by accident".
- Organizations with fraud hotlines cut their losses by approximately 50% per scheme.

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2002 Report to the Nation on Occupational Fraud & Abuse

The Perpetrators: (cont.)

3. Gender: Number of cases reported with respect to gender showed that the number of incidents were very close; although the losses caused by males were more than three times higher as those committed by females.

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2002 Report to the Nation on
Occupational Fraud & Abuse

The Perpetrators: (cont.)

4. Individuals under the age of 26 committed 6% of frauds; Persons over the age of 35 committed 60% of the thefts; and persons between the ages of 36 – 50 committed nearly 50% of the thefts.

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Issues to Consider

- Employee status (e.g. terminate, suspend with or without pay, etc.).
- Interview/Interrogate employee depending on your firm's position on this issue.
- Obtain confession; "written" if possible.

52

2002 Report to the Nation on
Occupational Fraud & Abuse

The Perpetrators: (cont.)

5. Education: Losses caused by perpetrators with a college education was 3.5 times higher than those with high school diplomas.
6. Criminal History: Most perpetrators are first time offenders.

50

Issues to Consider

- Secure work area/records.
- Contact either Investigations Dept. or Audit in order to perform a thorough investigation of theft.
- Contact Law Enforcement (e.g. local, county, state, federal).

53

I am a victim of Fraud, now what?????

You discover that a trusted employee in your operation has been stealing money for a substantial amount of time.

51

Issues to Consider

- Examine existing policies and procedures that permitted the thief to perpetrate the scheme without detection.
- Change or modify policies/procedures to prevent reoccurrence of theft.

54

Recovery of Assets

1. Voluntary assignment of personal assets (e.g. 401K, IRA's, Bank accounts, etc.).
2. Court Order blocking transfer of assets (e.g. Bank accounts, property, etc.).

55

What steps do I take?

- Contact your financial institution as soon as possible and inform an Officer of the Bank what has happened.
- Inform the Bank of the type and scope of the fraud (e.g. theft or corp. checks/ongoing 18 months).

58

Recovery of Assets

4. Criminal prosecution – Restitution.
5. Civil Suit.
6. Attempt to recover funds from other individuals that may have facilitated theft knowingly or unknowingly (e.g. accomplice).

56

What steps do I take?

- Request assistance from the Bank's Investigation Dept. or Audit Group.
- Retain legal counsel.
- Document loss and submit claim to Bank.

59

Recovery of Assets

**I believe that my Bank facilitated this scheme (unknowingly); but had they exercised reasonable care this fraud would have been detected earlier.
I believe that my Bank owes me for the loss I incurred.**

57

What actions will the Bank take?

- Bank will review claim & determine what if any liability rests with the Bank and what may be the result of negligence or culpability on the part of the company (e.g. employee has criminal background).

60

What actions will the Bank take? (cont'd)

- All supporting documents will be reviewed.
- Possibly customers & employees of the company may be interviewed.
- Affidavits of Forgery obtained.

61

Bank Defenses

Uniform Commercial Code (UCC)

Article 3

- **Article 3-404**
Imposters; Fictitious Payees
- **Article 3-405**
Employer's Responsibility for Fraudulent Endorsement by Employee
- **Article 3-406**
Negligence Contributing to the Forged Signature or Alteration of Instrument

64

What actions will the Bank take? (cont'd)

- Has the matter been referred to Law Enforcement.
- The firm's outside auditing firm may be contacted for the results of any recently completed compliance audits.

62

Bank Defenses

Uniform Commercial Code (UCC)

Article 4

- Article 4-406**
Customer's Duty to Discover and Report Unauthorized Signature or Alteration
- Article 4-111**
Statute of Limitations

65

What actions will the Bank take? (cont'd)

- Workflow and paper trails and associated job responsibilities will be reviewed.
- Checks and balances (or lack of) will be reviewed.
- If possible the perpetrator will be interviewed.

63

Summary

Must Have:

- **Firm/Entity needs to have adequate controls in place.**
- **Firm/Entity needs to have sound operational practices.**
- **Firm/Entity needs to have an effective Audit program.**

66

Summary

Suggestions:

- **Hotline to report suspected thefts/wrongdoing.**
- **Unannounced/surprised audits of funds/books.**
- **Expect the unexpected.**
- **Code of Conduct Policy.**

67

Theft Prevention



● **Thefts By Unknown Suspects (B&E)**

- **Good lighting/locks**
- **Limit access to building**
- **Single point of entrance & exit after hours.**
 - **Emergency exit is an exception with alarm**
- **Use of internal barriers**

70

Summary

Suggestions: (cont'd)

- **Mandatory 1 week vacation/time off for sensitive areas.**
- **Criminal background/Credit checks on "new hires" & employees in key/sensitive positions.**
- **Insurance coverage.**

68

Theft Prevention

- **Regular contact with police dept. for frequent property inspections (local/county/state)**
- **Thefts By Students/Teachers**
 - **Establish zero tolerance scale**
 - **Prevention & suspension/dismissal for theft**

71

Tom DeClercq
Michigan State Police

Property/Employee Theft

69

Theft Prevention

- **Limit access to equipment/property when not in use**
- **Require accountability by teachers for monthly inventory on class property (set dollar amount)**

72

Preventive Measures

- **Tag or label all school equipment**
 - Pre-established dollar amounts for equipment
 - Use of internal (hidden) tags for items such as computers
 - Tags should list owner of property and contact phone number

73

Embezzlement/Fraud



- **Law Enforcement Perspective**
 - Must have system of checks & balances in place
 - All levels of supervisors with fiduciary responsibilities must have oversight or be accountable

76

Preventive Measures

- **Inventory list established and maintained by office and classroom teacher**
 - Set inventory checks at regular intervals
 - Video surveillance

74

Investigation/Prosecution

- **Law enforcement should be brought in immediately upon suspicion of fraud/embezzlement**
 - Law enforcement trained in interview/interrogation
 - Law enforcement is unbiased (not a co-worker of parties involved)

77

What To Do Once A Theft Has Occurred

- **Tip line established for anonymity**
- **Contact with police (detective)**
- **Establish what property had been stolen through inventory or audit**
- **Possible reward leading to recovery and/or arrest**

75

Investigation/Prosecution

- Use of search warrants and/or investigative subpoenas to gain evidence that could be destroyed/alterd
- Resources available such as laboratory, Computer Crimes Unit, polygraph, surveillance

78

Investigation/Prosecution

- **Civil arrangements should be avoided**
 - **After suspect has defaulted on civil arrangement, victim has limited resources on receiving restitution when not established by court**

79

Authorized/Unauthorized Actions

- "The Well-Intentioned Mistake"
 - Expenditures of Public Funds for Private Purposes
- vs-
- Use of Private Funds in a Segregated Account

82

Roy Henley Thrun, Maatsch & Nordberg, P.C. Legal/Policy Issues

80

Actions with Civil Legal Implications

- Employee Performance Issues
- "Crossing the Line"
 - Employee Expenses
 - Statutory Authorization
 - School Fund Management
 - Use of School Property and Equipment

83

Spectrum of Legal Issues

- Authorized/Unauthorized Actions
- Actions with Civil Legal Implications
- Actions with Criminal Legal Implications

81

Actions with Criminal Legal Implications

- Embezzlement
 - By Public Officer, Agent, or Servant
- Larceny
 - From Specific Places
 - By Conversion
 - By False Personation
- Uttering and Publishing

84

Investigations

- Witness Statements
 - Union Rights
 - Contractual Rights
 - Self-Incrimination Issues
- Evidence Preservation
- Documentation
- FOIA Implications

85

Criminal Litigation

- Governmentally Controlled
- Sentencing
 - Restitution
- Effect Upon Civil Litigation

88

Employment Actions

- Contracts
 - Collective Bargaining Agreements
 - Individual Contracts
- Due Process Issues

86

Policy Considerations

- Property Usage
 - Acceptable Use Policies
 - Computers
 - Other Property
 - Lack of Privacy Interests
 - Inventory Procedure

89

Civil Litigation

- Burdens of Proof Against Employees
 - Recovery Actions
 - Immunity
 - Collection
 - Tenure Actions
- Against Employers
 - Employment Actions
 - Contract
 - Due Process
 - Civil Rights

87

Policy Considerations

- Account Management
 - Board Authorization
 - Regular Account Reconciliation
 - Board Approval of All Employee Payments
 - Limited Access to Signature Places for Checks
 - Immediate Restrictive Endorsement of Checks

90

Cash Management

- Establish Procedures for:
 - Collection
 - Deposit
 - Recording

- Separation of Duties

91

Public Relations in the Aftermath

- Be Proactive
- Create a Communications Plan
- Spread Your Message

94

Fraud & Abuse

Break time

We will return promptly at
5:00 pm

Questions:
msbo@wkar.org

92

The Communications Plan

- What is the goal of the plan?
 - To proactively address the issue and counter any negative impact
- Under riding theme
 - Commitment to accountability—we take our role as stewards seriously

95

Janet Roberts Huron Valley Schools

Public Relations in the Aftermath

93

The Communications Plan

- Issues
 - How, what & when to communicate
 - To whom
 - How to show we have and will continue to do to safeguard our assets
 - How to demonstrate we will hire & retain quality employees
 - How to enhance our image

96

The Communications Plan

☛ Actions/Timing

■ General Actions

- ☛ Designate spokesperson
 - All media go through Communications Office
- ☛ Continue current/planned PR

97

The Communications Plan

☛ Actions/Timing (cont'd.)

■ Media

- ☛ Press release announcing incident and our findings/actions
- ☛ Increase flow of positive PR to media
 - Both from buildings (PR Liaisons) and District
- ☛ Create media statement for frontline
 - "This matter has been turned over to the authorities. I'm not free to comment further. You can contact our Communications Office....."

100

The Communications Plan

☛ Actions/Timing (cont'd.)

■ Staff

- ☛ Use "7 Questions" document for COAT/Board
- ☛ Notify leadership team and supply talking points
- ☛ Remind leadership of crisis communication protocols
 - Limit access to staff & students
 - All inquiries go to Communications Office
- ☛ Ask leadership to monitor, evaluate reactions
- ☛ Notify all staff
- ☛ Encourage all staff to counter misinformation

98

Public Relations in the Aftermath

☛ President's Statement:

"This demonstrated to the community that our administration takes its responsibility to safe guard the assets of the District very seriously." Further, Squires indicated, "Given the complexity and sophistication of this crime, we could have incurred considerably more losses had it not been for the experience and skill of our business staff."

101

The Communications Plan

☛ Actions/Timing (cont'd.)

■ Community

- ☛ Inform key stakeholders of overview and steps
- ☛ Superintendent Guest Column in local papers
- ☛ Article in District newsletter
- ☛ Articles for building newsletters

99

Establish Your Media Contacts

- ☛ Communications Director
- ☛ Superintendent
- ☛ Asst. Supt. of Administrative
- ☛ Legal Counsel
- ☛ CPA or Independent Fraud Examiner

102

The Press Release

Huron Valley Controls UnCOVERS Fraud
The Huron Valley Schools' internal audit controls uncovered that a clerk in its business operation had embezzled funds totaling approximately \$150,000 from the District. The employee has been dismissed and is currently under investigation of the FBI. The District will recover all funds.

103

Tell Staff The Whole Story

Superintendent Update Sent to All Employees before press release
(also sent via email to HVS employees)

106

Telling Key Stakeholders

- As this story unfolds in the media, community members may ask you about it. Share the facts I have presented. *Reassure them Huron Valley Schools is committed to its accountability to the community—we take our role as stewards of the public trust very seriously.*
- In talking to community members, I encourage you to use this opportunity to share the goals and direction we will pursue this year. Under the year-three initiatives in the District's Strategic Plan, we expanded our educational options to provide more opportunity, flexibility and choice for staff, students and parents.

104

Revisions Along the Way

- Inform key leaders/spokespeople of any changes as new information arises.
- Integral to this plan is sticking to the statement, referring all media inquiries to the Communications Department and reinforcing the positive attributes of the District.

107

Consistent Messaging

Leadership & Management Overview & Talking Points for Staff/Community

Reassure them that "Your District" is committed to its accountability to the community—we take our role as stewards of the public trust very seriously.

105

The Seven Questions

- Provide leadership with "Seven Question" review of the fraud
- Allows you to create concise, factual overview of the incident
- Think in terms of who, what, how, why, etc.

108

Extra Support for Key Persons

- **Talking Points for President and Treasurer—provides more detail as media scrutiny increases**
- **Staff and remaining Board members stick to simple media statement**

109

ETHICS

112

Plan Your Release

- **Timeline of Events**
 - Board & legal counsel approve final press release
 - Exercise option to “leak” to local weekly press
 - Notify leadership of release (who in turn notifies their staff)
 - Notify union of former employee
 - Follow up message from Superintendent to all staff
 - Fax out release to all media (Supt. makes personal contact with key media)
 - Key communicator letter sent out
 - Put articles in district and building newsletter

110

DOING WHAT IS RIGHT

- **Extends outside business and accounting office**
- **Board members**
- **Administrators**

113

Mari McKenzie Yeo & Yeo, P.C.

Roles, Responsibilities & Ethics

111

Responsibilities

- **Duty of care**
- **Duty of loyalty**
- **Duty of obedience**

114

Prevent, Deter and Detect Fraud

- **Culture of honesty and high ethics**
- **Antifraud processes and controls**
- **Appropriate oversight process**

115

Code of Ethics

- **Protection and proper use of district assets**
- **Compliance with laws, rules and regulations**
- **Encourage the reporting of any illegal or unethical behavior**

118

Tone at the Top

- **May seem obvious, but it goes a long way toward preventing fraud in an organization**
- **Establish core values**

116

Code of Ethics

- **Guidance to personnel**
- **Definitions of what is acceptable**
- **Consequences for unacceptable behavior**

119

Code of Ethics

- **Important role**
- **Tone at the top**
- **Foster culture of honesty and accountability**
- **Communicate to all employees**

117

Code of Ethics Considerations

- **Organizational code of conduct**
- **General employee conduct**
- **Conflicts of interest**
- **Outside activities, employment and directorships**
- **Relationships with clients and suppliers**

120

Code of Ethics Considerations

- Gifts, entertainment and favors
- Kickbacks and secret commissions
- Organization funds and other assets
- Organization records and communications

121

Fred Hailer Plante & Moran, PLLC

Roles, Responsibilities & Ethics

124

Code of Ethics Considerations

- Dealing with outside people and organizations
- Prompt communications
- Privacy and confidentiality

122

Expectations

Recap of Program Thus Far:

- Provided examples of Fraud & Abuse
"It could happen to you"
- Discussed the legal do's and don'ts
- Outlined how to handle public relations
- Described an environment that promotes ethical behavior

125

Ethics

- Doing what is right
- Set the tone at the top
- Communicate to all employees

123

Expectations

Understand our world has changed:

- Almost daily reminders of Sarbanes-Oxley Act of 2002
- Schools & School Boards are not covered by this act – however....
- Public expectation that you are maintaining the same standards

126

Expectations

- Auditors under increased pressure and scrutiny
 - Arthur Andersen
 - GAO Independence Standards
- Examples

The Michigan Association of **MACPA** Certified Public Accountants

Fall Accounting Conferences

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Hilton Northfield
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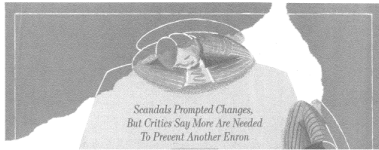
- SEC Update After Sarbanes-Oxley
- Introduction to Internal Audit Ethics

Recommended CPE Credit: 8 hours (including AAA and Ethics) each conference

MARKETPLACE

THE WALL STREET JOURNAL

Boardrooms Under Renovation



Scandal Prompted Changes, But Critics Say More Are Needed To Prevent Another Enron

Independence Of Directors Is Elusive Goal

THE REGULATORY WINDMILLS of Enron's bankruptcy are still spinning, but the corporate oversight board known as Sarbanes-Oxley, combined with rules promulgated by the SEC, is making a major contribution to corporate directors. The panel will see that, as members of a board's watchdog audit committee, they take their company officer class for their best service.

BREAKOUT SESSIONS Please indicate seven of your preferred choice of five.

- A. SEC Update After Sarbanes-Oxley Act of 2002**
A discussion of later accounting and reporting issues affecting SEC reporting entities and their auditors, including the impact of the Sarbanes-Oxley Act and related SEC rules and regulations.
Presented by a representative from Deloitte & Touche
- B. Using the EVA Method to Make Better Business Decisions**
This session will focus on how to determine value, including value drivers of the organization, value creation, financial measurement systems, utilized in today's business, discounted cash flow, and economic value added calculations.
Andrew M. Martin - Principal, Economic Valuation Advisor, LLC, Farmington Hills
- C. Benefit Plan Audits**
A discussion of the audit process of employee benefits plans with a focus on ERISA issues and common deficiencies.
Paul H. Winter - Managing Partner, Wilentz, Bersky & Associates, PC, Southfield
- D. FASB Update**
A review of recent authoritative pronouncements of the Financial Accounting Standards Board and current topics on the FASB agenda.
Gail J. Dillon - Accounting Professor, Oakland University, Rochester (October 16th)
- E. Internal Control and Risk Assessment**
The method to assess risk in an organization will be discussed with a focus on how to determine if controls are in place to mitigate those risks.
Thomas L. DeBora - Manager, Controls & Process Improvement, C2 Energy, Ann Arbor
- F. Accounting for Business Combinations and Goodwill (September 16th only)**
A discussion of the dramatic changes to SFAS 141 and 142, and how these changes affect the accounting for business combinations and goodwill.
Howard Banda - Associate Professor of Accounting, Eastern Michigan University, Ypsilanti
- G. Inbound and Outbound Foreign Operation Issues (October 16th only)**
A focus on the need to provide information to a foreign parent or receive information from a foreign subsidiary, the need to report under foreign GAAP or interpret financial statements reported under foreign GAAP.
David V. Grubb - Manager, Plante & Roux, LLP, St. Paul, MN, Princeton
- H. Introduction to Internal Audit**
Recent regulatory changes mandate that a company must now have an internal audit function. This session will address the responsibilities of an internal audit function, the professional standards and requirements placed upon an internal audit function, and the role of the internal audit function in the corporate governance structure.
James P. Martin - Managing Director, Executive Responsibility Advisor, Bloomfield Hills
- I. The Auditor's Role in Implementing SAS 99**
This presentation will address the new AICPA Statement of Auditing for Fraud (SAS 99), and what the auditor needs to know for successful implementation.
Gregory A. Coates - Director of Accounting and Audit Services, Plante & Roux, LLP, Southfield

Private Companies Also Feel Pressure to Clean Up Acts

By Matt Muzar

THE SARBANES-OXLEY act is aimed at making publicly traded companies more accountable. But it's having a big impact on privately owned companies as well.

Dick Jackson, chief financial officer of Road & Ball Services Inc., doesn't have to file public reports on his company's operations. The logistics and transportation company, based in Lancaster, Pa., has just three owners.

In its recent months, Road & Ball, which has 60 employees and about \$25 million in annual sales, has been treating its corporate governance practices. Mr. Jackson has added layers of review to the process of compiling financial results, and booked accountability by ensuring that different managers are responsible for approving invoices and signing checks. The board is contemplating limiting one or more independent directors about.

Why the changes? Mr. Jackson says his company, like others, has been learning from the scandal at Enron Corp., WorldCom, and elsewhere. So have a growing number of its clients—along with its banks and insurance companies—and they want to see Road & Ball can hold up its books as well as its promises. Many of its clients are public companies that have overhauled their own governance in response to the new regulations, Mr. Jackson says.

"Philosophically, as a privately held company, you don't want everything exposed to the world," he says. "On the other hand, the world is changing, and there's a lot more sharing of information between customers and suppliers and business partners. I think everything eventually is an external event."

Indeed, the Sarbanes-Oxley act is having a ripple effect, much more far-reaching than any of us know," Mr. Jackson says.

Among the changes, closely held companies are quietly overhauling their boards and upgrading their accounting standards. In addition to addressing their own owners, managers are being pressed to make changes by customers, investors, accountants and venture capitalists. Many companies also are reacting to the rising cost of insurance for directors and officers.

Jackson says, a federal judge in New York City ruled that directors at bankrupt Transocean International Holdings Inc. failed in their responsibility by allowing its chairman and controlling shareholder, Michael O'Brien, to funnel funds through excessive compensation, dividends and loans. The decision makes it clear that "private company directors and officers are going to be held to the same standard as public company officers and directors to determine whether or not they are fulfilling their duties," says John P. Cunniff, a partner at LeBoeuf, Lamb, Greene & MacKaye LLP, who represents the bankruptcy trustee in that case.

To be sure, most private companies have stopped the bankruptcy trustee in that case. After all, sending the spotlight and the paperwork that comes with being public is part of the reason that many stay private.

"I want the right disciplines in place," says Murray Carlson Nelson, chairman of PricewaterhouseCoopers, a former Enron executive.

Moved to Action

In a survey of 1,400 chief financial officers from private U.S. companies, 58% said their company has taken or plans to take steps to better control accounting practices.

- 44% plan to change current accounting procedures
- 31% plan to expand internal audit function
- 25% plan an independent firm by conducting audit function
- 23% plan to increase director compensation plans

Source: PricewaterhouseCoopers

out sessions on the registration form. You will be assigned to five.

- J. Management Perspective of SAS 99**
This session will address how the industry manager should respond when receiving the auditors' common letter of a potential existence of fraud, and discuss the internal control measures that can be put into place to limit future risk of fraud.
James P. Martin - Managing Director, Executive Responsibility Advisor, Bloomfield Hills
- K. Cash Flow Statement Analysis (October 16th only)**
A look at how financial institutions compute and evaluate cash flow statements to determine a credit worthiness of a loan application, the method of calculations, and the ways it is sensitized in the credit process.
James S. Senack - First Vice President and Loan Group Manager, Comerica Bank, Detroit
- L. Compilation and Review Update**
An update on compilation and review with emphasis on the practical application of SSARS 9.
Jeffrey A. Harrell - Owner, Adick & Reagen, PC, Southfield
- M. Auditing the IT Function**
A discussion of the SACA Risk Assessment Procedure designed to provide a definition of the IT Audit Risk Assessment, guidance on the use of the assessment methodology by internal auditors, and guidance on the selection of risk ranking criteria and the use of weightings.
John W. McCordick - Managing Director, Executive Responsibility Advisor, Bloomfield Hills
- N. Accounting for LLCs (October 16th only)**
A look at how financial institutions compute and evaluate cash flow statements to determine a credit worthiness of a loan application, the method of calculations, and the ways it is sensitized in the credit process.
Raymond L. Leav - Attorney, Raymond L. Leav, P.C., Troy
- O. Current Issues in Ethics** (September 16th only)**
This session will highlight the impact on the profession as a result of the trickle-down effect of Sarbanes-Oxley. Also, highlighting changes to Circular 230. (Deadline 10/16/08)
Michael L. Swenick - President, Swenick & Swenick, PC, Royal Oak, MI
- P. Anatomy of an Ethics Investigation** (October 16th only)**
You have just opened your mail and found that you are the subject of an ethics complaint. This session will lead you through the proper procedures to deal with an ethical violation and discuss what you can expect at the various stages of an investigation.
Raymond L. Leav - Attorney, Raymond L. Leav, P.C., Troy

Look for these upcoming A&A Seminars

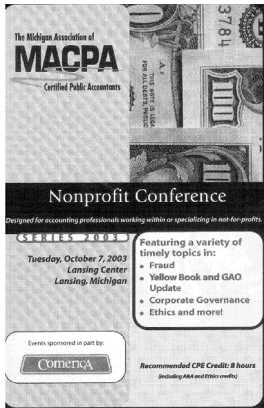
Annual Update for Accountants & Auditors (AAA&A) III - September 23, 2008
Hickory Hill, West Lincoln, VA

Accounting & Auditing Update (AAA&A) IV - October 22, 2008
MSU Management Education Center - Troy

Compilation & Review Update (AAA&A) V - October 24, 2008
MSU Management Education Center - Troy

Financial Accounting Standards Board Update (AAA&A) VI - October 24, 2008
MSU Management Education Center - Troy

For more programs and information visit our Web site at www.michigan.org or contact the CPE department for more information.



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Expectations

Of The Board:

- Cultivate a district climate of honesty & Integrity
- Avoid/Disclose related party transactions
- Support central office efforts to institute and monitor strong internal control measures

136

Expectations

Of the Central Office:

- Cultivate a District climate of honesty & integrity
- Identify & deploy appropriate internal control procedures
- Develop internal audit functions where appropriate
- Avoid/disclose related party transactions

134

Expectations

Of The Board:

- Allocate sufficient resources to insure proper oversight & safeguarding of district operations
- Adopt a policy of zero tolerance for fraud & abuse

137

Expectations

Of The Central Office:

- Consider use of anonymous hotline for employees to report fraud
- Insure auditors have appropriate access to the Board
- Inform Board of any significant financial issues

135

Expectations

How to accomplish these expectations:

- Teamwork in developing accountability
- Ask your auditors for help
- Operate with the best interest of the district & community in mind
- Be flexible – it's a changing environment for Boards, Central Office & Auditors

138

Mari McKenzie
Yeo & Yeo, P.C.

Roles, Responsibilities & Ethics

139

Auditing

- Independent review of the fairness of financial statements
- Systematic examination and appraisal of systems in an opinion

142

AUDIT

140

Stakeholders in the Audit Process

- Board
- Administration
- Employees
- Citizens
- Parents
- Bondholders

143

Accounting

- Gathering and presenting financial information

141

Objectives

- Accountability to the public
- Financial information presented in accordance with GAAP
- Financial statements free of material misstatements

144

Objectives

- Adherence to financial compliance requirements
- Deficiencies in the accounting system

145

Auditor Responsibility

- SAS 99 does not increase the auditor's responsibility to detect fraud

148

Objectives

- Provides board and management an opportunity to establish working relationships with individuals who specialize in school financial management and accounting and who are familiar with the latest developments in the field

146

Auditor Responsibility

- Responsibility to plan and perform the audit to obtain reasonable assurance that financial statements are free of material misstatement, whether caused by error or fraud
- Additional guidance and requirements

149

Evolution

- New fraud standard SAS 99
Consideration of Fraud in a Financial Statement Audit

147

Management Responsibility

- SAS 99 does not alter management's responsibility with respect to fraud
- Management is responsible for designing and implementing controls to prevent, deter and detect fraud

150

Ric Peterson

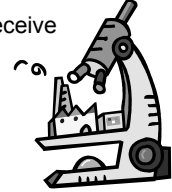
Michigan School Business Officials

Is it Time for your District to Establish an Audit Committee?

151

What Does it Do?

- Meets with District Internal Audit Personnel
- Maintains Procedures to Receive and Address Complaints



154

What is an Audit Committee?

- Includes
 - Executive Branch of the Organization
 - Legislative Branch of the Organization
 - Members of the Public



152

Audit Committee Members

- District Chief Financial Officer
- Member(s) of the Board
- Community Person(s) with Financial Expertise



155

What Does it Do?

- Manages Auditor Acquisition Process
- Manages Acquisition of Services Outside the Attest Function
- Discusses Audited Financial Statements with Auditor
- Discusses Management Letter with Auditor
- Discusses Reportable Conditions with Auditor

153

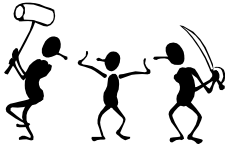
Enhance District's Financial Reporting

- Auditor Meets with Audit Committee
 - Committee meets with executive and legislative branches
 - Discuss financial reporting decisions
 - Discuss financial statements and opinion
 - Discuss internal controls
 - Discuss audits of significance not reflected in financial statements

156

Enhance District's Financial Reporting

- Audit Committee Approach Provides for Direct Auditor/Board Committee Interaction



157

Questions?

Please e-mail your questions to:

MSBO@wkar.org

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Thank You!

- Please fill out your evaluations at www.msbo.org, www.gomasa.org, www.masb.org or www.gomiem.org.
- If you are a site that is offering SB-CEU, please be sure and turn in your forms at the end of the program.

159