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Frauds in K-12 school districts

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FRAUDS IN K-12 SCHOOL DISTRICTS

A Thesis Submitted
In Partial Fulfillment
Of the Requirements for the Designation
University Honors

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University of Northern Iowa
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This Study by: Cassandra Zinnel

Entitled: Frauds in K-12 School Districts

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Date

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Date

Dr. Jessica Moon, Director, University Honors Program

Introduction

When a child is dropped off at school, thinking a fraud could happen would be the farthest thing from one's mind. This paper will be examining school frauds happening in five different states to see any trends within the data. The investigated trends included how the frauds were discovered, how the patterns of cases looked in the last 15 years, and which controls were defective that allowed the fraud to occur. The paper analyzes the state auditor reports from several states dealing with school frauds. This paper will demonstrate an understanding of why school frauds happen and why they happen where they happen. This is important because others can get an understanding of why these school frauds are happening and what needs to be done to detect them. The paper can also give people an understanding of why certain internal controls fail and how employees may exploit the lack of internal controls.

Literature Review

When people think of fraud, they usually think of Enron or WorldCom. People do not think of the frauds that happen in everyday life; one kind that most people are not as familiar with is school district fraud. The same place children are getting an education can also be a place fraud occurs. According to Albrecht (2019):

fraud is a generic term, and embraces all the multifarious means which human ingenuity can devise, which are resorted to by one individual, to get an advantage over another by false representation. No definite and invariable rule can be laid down as a general proposition in defining fraud, as it includes surprise, trickery, cunning and unfair ways by which another is cheated (p. 4).

Legal Information Institute stated the legal definition of fraud is “deliberately deceiving someone else with the intent of causing damage. This damage need not be physical damage, in fact, it is often financial” (n. d). There are two subtypes of white-collar fraud: occupational and corporate (Holtfreter, 2008). When occupational fraud is committed, it benefits the individual committing the act, which normally involves bribes, embezzlement, kickbacks, and bid-rigging. Whereas, corporate fraud is the organization benefiting from the deception committed, which can involve asset theft, skimming, financial statement falsification, and unauthorized use of assets.

The Fraud Triangle

Frauds include three different aspects known as the fraud triangle: perceived pressure, an opportunity, and the rationalization that it is now acceptable (Albrecht, 2019). For fraud to occur, all three parts need to be present. When it comes to perceived pressure, there are three types of pressure. The first pressure is known as financial pressure and happens when people feel they have entered into financial bind and see no way out but to commit fraud. The next type of pressure would be emotional, when someone feels their performance has not been recognized or fear of losing their job. The last type of pressure would be lifestyle pressure (Albrecht, 2019). It can happen when someone has a gambling habit or other habits that require more money than they have. Lifestyle pressure causes people to commit fraud because they want to keep up a certain lifestyle. Fraud can be committed without financial pressure; when this happens, the motive is pure greed.

The perceived opportunity means the person sees an opening in time to commit the fraud or they think it can be concealed. There are three different opportunities including committing fraud, concealing it, and converting for personal gain (Albrecht, 2019). Committing is the act of performing the fraud. Concealing is when the perpetrator tries to prevent the fraud from being

discovered. One way this can happen is when an employee changes the stolen item into an expense, which the accounts are cleared out at the end of the fiscal year. The last opportunity would be to convert the theft or misrepresentation into monetary gain (Albrecht, 2019).

The final part of the fraud triangle is to rationalize the act. Rationalization can be as easy as convincing oneself that the fraud did not hurt anyone or they think they deserved it more than the organization.

The research of Albrecht, Howe, and Rommey (1984), assembled a list of pressure, opportunity, and integrity variables that resulted in a list of possible red flags or indicators of occupational fraud and abuse. The variables fell into two categories: perpetrator characteristics and organizational environment. The one at the top of the list for personal characteristics was a high level of personal debt and living beyond the person's means. The most important organizational characteristics were a lack of enforcement of clear lines of authority and proper procedures for authorization of transactions.

Typical Offender

The typical type of offender is middle class and frequently a middle-aged white male (Holtfreter, 2008). There are several other factors that influence the likelihood an individual will commit a fraud which are gender, age, education, and workplace position. However, the number of women arrested for crimes such as embezzlement and fraud, have been increasing over the last three decades. When owners and executives accounted for 20% of frauds in 2020 Global Study on Occupational Fraud and Abuse, the median loss was \$600,000, which exceeded losses by lower-level employees (ACFE Report to the Nations, 2020). Lower-level employees committed fraud more often, while higher-level employees were responsible for more impactful

dollar amounts (Holtfreter, 2008). When fraud cases are covered in the media, the cases covered are committed by higher-level executives.

There appears to be no significant relationship between the size of the fraud and the size or age of the organization. An average case resulted in a loss of less than \$50,000 and was committed by a woman with no criminal record who earned less than \$50,000 per year and had worked for the nonprofit for at least three years. The costliest frauds were those committed by male managers and executives. More than one-quarter reported were carried out by managers, 8.6% were executives (Greenlee, 2007). Greenlee (2007) pointed out “the larger frauds are associated with the following variables: collusion (multiple perpetrators), higher salaries, age, longer tenure with the organization prior to the detection, education level, and to a lesser extent, with men” (pg. 683). Longer tenure with an organization had a direct correlation to the amount of fraud. For example, ACFE Report to the Nations (2020) stated “those who had been with the victim organization for at least ten years stole a median USD 200,000, which was four times greater than the median loss caused by employees with less than one year of tenure” (p. 39).

When some occurred, there was the element of collusion between two or more people. Although fewer were committed with collusion, the loss was more than four times higher when compared to ones committed by individuals (Greenlee, 2007). Most of the perpetrators who committed fraud, had never been convicted of a crime or did not have a criminal history.

Internal Controls

Internal controls are not a simple process but a dynamic and integrated process that applies to all entities. For example, Committee of Sponsoring Organization’s (COSO) Guidance on Internal Control (2013) said “internal control is a process, effected by an entity’s board of

directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance” (pg. 3). Internal controls can also be thought of as mechanisms, rules, and procedures a company has to ensure the integrity of financial and accounting information. They also promote accountability and help prevent fraud. The most common internal control framework organizations tend to implement is the Committee of Sponsoring Organizations Internal Control Framework (COSO). The overall goal of this framework is to enhance and improve organizational performance and oversight. It can also reduce the magnitude of fraud, which would be a main reason a company would implement this framework.

The first component of COSO is the control environment, which creates the environment of the organization, impacting the internal knowledge of its people (Albrecht, 2019). The control environment is the foundation for all components of internal controls, providing discipline and structure. Companies need a good control environment to be able to achieve good internal controls, which can be achieved by having the organization demonstrate commitment to integrity and ethical values (COSO, 2013). Top management sets the tone for the importance of internal controls and the expected standards of conduct. Management establishes internal controls, with board oversight, structures reporting lines, and appropriate authorities (COSO, 2013).

The second component is risk assessment. Additionally, Albrecht (2019) stated “risk assessment is the identification and analysis of relevant risks to achievement of the objectives, forming a basis for determining how the risks should be managed” (p.65). The risk assessment component evaluates the potential threats to an organization, then the information is used to determine what controls are needed. Because conditions are always changing, constant monitoring is needed to identify and deal with the special risks. For companies, risk management

is important because it sets the basis for determining how risk is managed. For this to be established, it is important to have objectives linked through different levels of the entity. The three categories of objectives are operations, reporting, and compliance (COSO, 2013). Management must also consider changes in external environment compared to its business model, and both must be considered to render internal controls ineffective (COSO, 2013).

The third component would be control activities, which ensure authoritative instruction is applied (Albrecht, 2019). The controls help ensure necessary actions are taken to address risk. Control activities are developed through policies and procedures in the organization, this helps management know their directives to reduce risk (COSO, 2013). Segregation of duties would be an example of a control activity. The fourth component is information and communication. It is important for management to communicate company objectives and concerns throughout the organization. Information is necessary for a company to carry out internal control responsibilities. Communication is important for a company because it is necessary to obtain critical information.

The final component is monitoring. Monitoring assesses company performance over time (Albrecht, 2019). The first thing a company should do is evaluate their internal controls in place and analyze their effectiveness. Organizations can do this when they evaluate and communicate internal control deficiencies. By doing this, it allows the organization to be able to correct the control in a timely manner. The framework can help reduce and/or deter fraud from happening within an organization.

Internal controls are an important part of any organization, and public-school districts are no exception. Blouin (2017) pointed out “in New York, the Office of the State Comptroller (OSC) has increased testing of school districts’ controls, after it uncovered an \$11.2 million

fraud at the Roslyn School District on Long Island in 2004” (p. 64). The education sector represents only 6% of all cases reported. School districts tend to be smaller organizations with large spending budgets, with few controls; therefore, the probability of fraud is higher (Blouin, 2017). Since Roslyn, there has been some success in improving controls and tax dollar savings. Before the Roslyn fraud in New York, school district audits had been considered low risk.

Public school districts are considered nonprofit government organizations. When it comes to criminology and business ethics, public school districts have been left on the sidelines, in regard to fraud research (Holtfreter, 2008). Since the nonprofit sector has minimal oversight, this can give the people within those organizations an opportunity to commit fraud.

Defective Internal Controls

When fraud occurs, many times an internal control is missing or is not being used properly. The two most common internal control weaknesses that allowed fraud to happen: lack of separation of duties and inadequate review of an employee’s work (Goldstein, 1992). When an employee knows what the system is and how it works, it is easier for the employee to commit fraud. This is an example of how a person can exploit defective internal controls, and when they know how the system works. There was a fraud involving a Community Development Block Grant in Scottsdale, Arizona, which was discovered during a city reorganization. The employee knew how the system worked and what forms needed to be signed to appear that money was being made. The employee managed to have the city pay \$88,426 for a house, pay the closing costs, purchase another home for \$58,525, and pay for various supplies and repairs (Goldstein, 1992). The employee knew the system and which controls were inadequate.

In a survey Greenlee (2007) asked:

firms about five different types on internal controls: background checks on new employees, presence of an anonymous reporting method, existence of an internal auditing or fraud examination function, annual audit by Certified Public Accountant, and carrying insurance to cover losses from fraud (pg. 687).

The most common control was bonding key employees or other types of insurance coverage against fraud. From the survey, it was stated that older and larger organizations tend to have more internal controls or an internal audit function in place. From the ACFE Report to the Nations (2020) “43% of frauds were detected by tips, of those tips, 50% were from employees, 22% were from the customer, and 15% were anonymous tips” (p.19). The frauds with the greatest losses were discovered by tips from vendors. The smallest ones were those from customer tips. Greenlee (2007) said:

although internal controls and internal and external audits were useful in identifying one-third of fraud cases, we found no reduction in the size of fraud losses, for those nonprofit organizations that had internal or external audits. Internal controls and audits may have deferred fraud in other nonprofit organizations (p. 687).

When frauds happen within an organization, there are options on what to do with the perpetrator. The organization can bring criminal and/or civil charges. About three-fourths of nonprofit cases resulted in the individual being let go, but 7% resulted in nothing being done (Greenlee, 2007). In most cases, the perpetrator either quit or disappeared when their fraud scheme was about to be discovered.

Roslyn School District Fraud

The Roslyn School District fraud has been called the “management case” because it illustrated the impact of ineffective internal controls and suggested ways to help management and the school board reduce or detect fraud within an organization (Blouin, 2017). This was a relatively small public-school district on Long Island just east of New York City. Blouin (2017) stated:

It all started in 2002, when the Board of Education notified the school district that the Chief Financial Officer had stolen \$223,000 from the district. The Board of Education accepted full restitution from the employee and no criminal charges were filed. After a few years had passed, in 2004, there were allegations that the misappropriation of assets from the district was substantially more and more widespread (pg. 199).

The fraud involved over \$11 million, it also involved individuals from within the district and also outside the district (Bierstaker, 2010). This case became a high-profile case within governmental entities, school districts were the main focus (Blouin, 2017).

There are several lessons that can be learned from this major fraud. The lessons in the case can be more useful for managers and oversight bodies (Bierstaker, 2010). An organization needs controls in place, for them to be followed and respected. Another deficiency would be the external audit function. The Board of Education or an audit committee should be responsible to hire and interact with the auditor. The final recommendation from the Board of Education was to have a public tip hotline, after this case, to make it easier for people to speak out against fraud that may be happening (Bierstaker, 2010). This will also allow people to stay anonymous and not be afraid of repercussions in the future.

There were many factors that caused this fraud to become so large. Many users of the system had inappropriate access and/or the ability to perform the functions that were not consistent with their day-to-day duties. *Finance Manager*, an accounting software, allowed access or oversight to too many individuals (Bierstaker, 2010). With this software, there were many controls that were disabled within the software, which made it easier for deception to occur. The outcome of the Roslyn School District brought increased attention to the issue of fraud in public-sector organizations (Bierstaker, 2010). The Roslyn School District brought forth two important outcomes: a major audit impact on the school districts by their respective states and new legislation to enhance governance and controls for school districts (Bierstaker, 2010). The case has brought to light many inconsistent factors that can allow fraud.

School districts in many jurisdictions are headed by a superintendent, who acted as the Chief Executive Officer. In some cases, there was an assistant superintendent who acted as the Chief Financial Officer. The people holding these positions above, most likely came up through the educational system and may have started out as teachers: both positions hold appropriate credentials by the education departments in each state (Bierstaker, 2010). This can have a negative impact on the internal controls if the CFO does not have an accounting background, it can be hard to understand how the accounts are impacted when there are issues. Therefore, fraud can happen by the CFO not knowing how to interpret the numbers and not being able to recognize irregularities. School districts are one of the entities that needed to be reviewed by an independent CPA firm. Bierstaker (2010) pointed out:

school districts are the only type of local government entity required to have an annual independent audit by a CPA firm, the state comptroller's office historically chose to

allocate little of its audit resources to school districts, preferring to utilize such resources to audit towns, villages, fire districts, and other municipal entities (p. 199).

When there are little audit resources put into school district audits, the internal controls need to be strong to help prevent or detect fraud. When there is an absence of controls, there are major opportunities for fraud to happen. When controls exist, but are not used effectively, there is an increased chance to happen (Bierstaker, 2010).

Lessons Learned

When frauds happen, there are lessons learned in the end that could have helped prevent the occurrences in the first place. When it comes to occupational fraud, the fraudsters are hard to characterize, causing it to be more difficult to predict their behavior (Greenlee, 2007). When it comes down to the lessons learned, knowledge of how frauds happened in the past can help prevent future cases. The research questions were brought up because it would be important to know how the frauds were discovered. The case trends would also prove important because the trends would show a pattern and reveal a potential future pattern. The final research question came about because it would be vital to see which controls were defective and allowed the fraud to happen.

Research Questions

1. What were the discovery methods that led to the uncovering of the fraud?
2. What were the trends of school frauds over the last 15 years?
3. Which internal controls were defective or how were they circumvented?

Methodology

The current study looked at K-12 school district frauds in Iowa as well as several states that were similar in size to Iowa. These states included Louisiana, Ohio, Oklahoma, and Washington State. These states were chosen because of the accessibility of their state auditor reports and the number of square miles in each state.

| Summary Information of the States | Square Miles | Population (2018) (in Millions) |
|-----------------------------------|--------------|---------------------------------|
| Iowa | 56271 | 3.1261 |
| Louisiana | 51840 | 4.66 |
| Ohio | 44825 | 11.6894 |
| Oklahoma | 69898 | 3.9431 |
| Washington State | 71300 | 7.5356 |

Table 1: Summary Data

Table 1 shows the comparative data. After the five states were selected, the state auditor website was visited for each state and reports read through to get an idea on the types of fraud that would fit into the research. It was decided to examine frauds at schools discovered from 2004-2019. Information was put into a spreadsheet to look at the number of school districts in each state, the amount taken during the fraud, some background information on the case, the recommendations given in the opinion, the length of the case, the case number, the failed internal control or procedure, who committed the fraud, and how the fraud was uncovered.

Iowa had 49 school frauds discovered since 2004 followed by Oklahoma with 34, Louisiana with 26, Washington State with 21, and Ohio with 8 frauds. Table 2 gives an overview of the cases, the average dollar amount, and the average length of case in months.

| State | # of Cases | Average Dollar Amount | Average length of case (months) |
|------------------|------------|-----------------------|---------------------------------|
| Iowa | 49 | \$176,336.66 | 46.082 |
| Louisiana | 26 | \$1,114,137.42 | 33.885 |
| Ohio | 8 | \$1,175,338.75 | 35.875 |
| Oklahoma | 34 | \$181,495.30 | 26.853 |
| Washington State | 21 | \$208,364.77 | 45.190 |

Table 2: Summary of Cases

Results/ Data Analysis

Discovery of Fraud

| Discovery Methods | Iowa | Louisiana | Ohio | Oklahoma | Washington State |
|------------------------------------|------|-----------|------|----------|------------------|
| Booster Official | 2 | | 4 | | |
| District Official | 42 | | | | 20 |
| Legislative/Citizen Concern | 1 | | | | |
| Division of Criminal Investigation | 1 | | | | |
| Country Attorney | 1 | | | | |
| Citizen Concern | 1 | | | 9 | 1 |
| School Board | | 26 | | 14 | |
| State Representative | | | 1 | | |
| Auditor | | | 1 | | |
| Law Firm | | | 1 | | |
| Anonymous | | | 1 | | |
| District Attorney | | | | 3 | |
| Attorney General | | | | 3 | |
| State Board of Education | | | | 4 | |
| State Department of Education | | | | 1 | |
| Total | 48 | 26 | 8 | 34 | 21 |

Table 3: Summary of Discovery Methods

The results from the research showed that each state differed in how the frauds were discovered in the school districts. Table 3 is an overview of how the fraud was discovered in

each state. In the state of Iowa, frauds were mostly discovered when district officials (87.5%) contacted the state auditor. This caused the state auditor to launch an investigation into the suspicion of the district officials. There were also other bodies that went to the state auditor about some suspicious activity within the school district. Some of them were Booster officials (4.17%), legislative and citizen concern (2.08%), the Division of Criminal Investigation (2.08%), a county attorney (2.08%), and citizen concern (2.08%). For the state of Louisiana, it was the school board requesting the audit for all 26 of the fraud cases.

For the state of Ohio, it was spread out with several different groups contacting the state auditor. The groups that were involved were a state representative (12.5%), school sponsor (50%), auditor (12.5%), law firm (12.5%), and an anonymous person (12.5%). For the state of Oklahoma, it was even more spread out. The group that reported to the auditor the most was the school board (41.18%), concerned citizens (26.47%), State Board of Education (11.76%), District Attorney and the Attorney General were the next to go to the auditor with suspicions (8.82%), and State Department of Education (2.94%). For the state of Washington, it was just two different groups that reported to the state auditor. The first group was the school district (95.24%) followed by a concerned citizen (0.05%). As an overall statement, the research showed that the suspicions were all reported to the given state auditor, then the auditor investigated at the given school district.

When there is suspicious activity going on within the school district, according to the data, it is more likely that a district official will go to the auditor with their concerns. This is most likely because they are the ones seeing what is going on and feel they do not have the expertise to fully evaluate the situation. This then leads them to the door of the state auditor.

Trends in Cases Over 15 Years

The chart below shows the trends of all of the cases over the last 15 years from all five states.

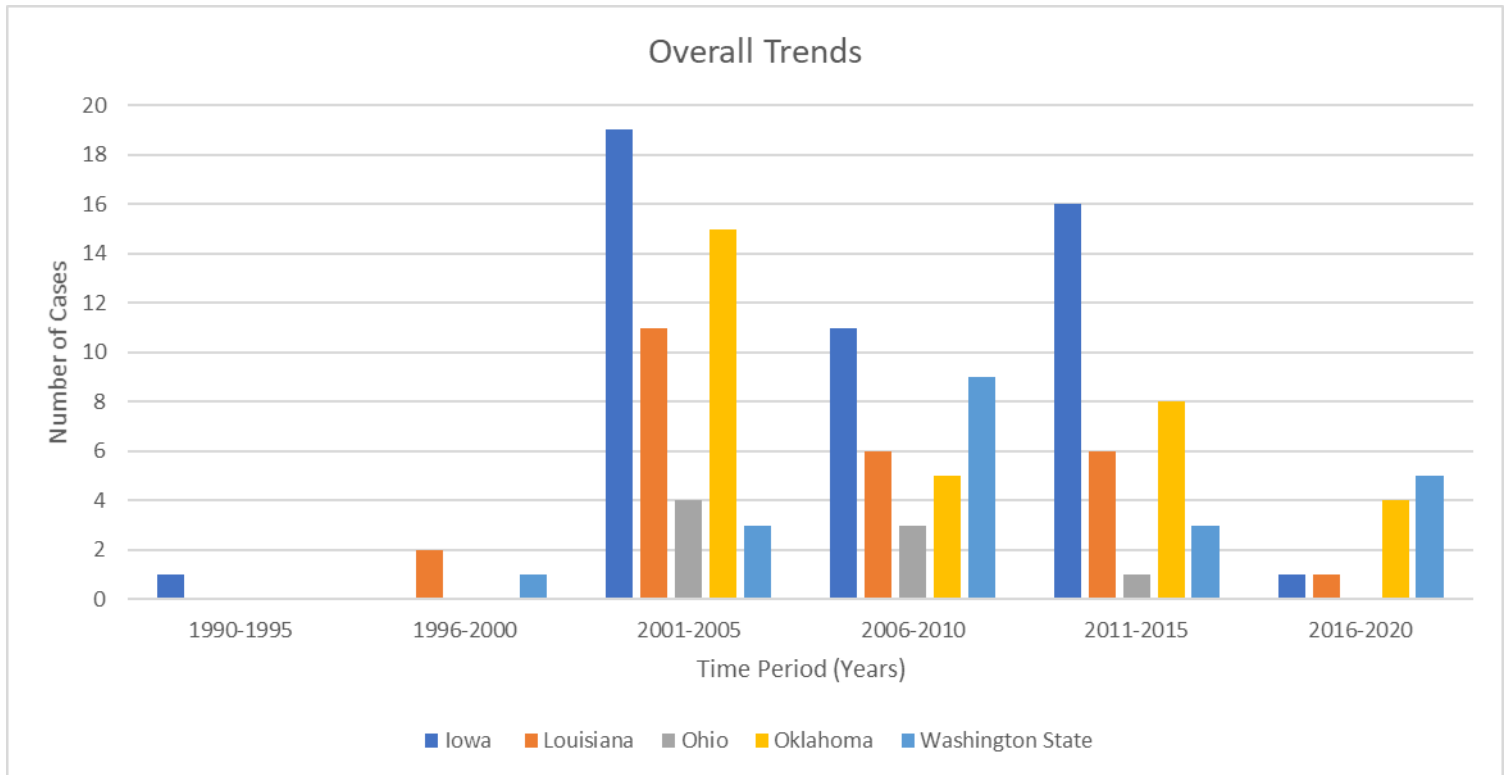


Figure 1: Overall Trend in Case

Figure 1 shows the overall trend of cases in all five states compared to the year (refer to appendix for the trends in the individual states). The chart includes the start date of the fraud for the ones which surfaced within the last 15 years. This does not mean the cases started in the 15-year period. All five states showed the frauds were discovered mainly in the last 15 years (refer to appendix for each state).

Defective Internal Controls

| Iowa | | Louisiana | | Ohio | | Oklahoma | | Washington State | |
|--|------------|---|------------|---|------------|---|------------|---|------------|
| Type | # of Cases | Type | # of Cases | Type | # of Cases | Type | # of Cases | Type | # of Cases |
| Lack of Control Over Segregation of Duties | 31 | Lack of School Board Oversight | 6 | Lack of Control Over Segregation of Duties | 2 | No Defective Control | 4 | Lack of Control Over Monitoring | 11 |
| Lack of Supporting Documentation | 16 | Lack of Control Over Improper Leave Reimbursement | 4 | Lack of School Board Oversight | 2 | Lack of Control Over Compensation | 4 | Lack of Adequate Oversight | 9 |
| Lack of Control Over Disbursements | 11 | Lack of Control Over Payroll | 3 | Lack of Control Over Financial Accountability | 2 | Lack of Proper Review | 4 | Lack of Control Over Safeguard Public Resources | 7 |
| Lack of Control Over Cash Receipts | 7 | Lack of Control Over Improper Use of Credit Cards | 3 | Lack of Control Over Credit Card Policies | 2 | Lack of Control Over Credit Card Policies | 3 | Lack of Control Over Cash Receipts | 5 |
| Total | 65 | | 16 | | 8 | | 15 | | 32 |

Table 4: Summary of Defective Controls

Table 4 gives a comparative view of the four most occurring defective controls. There can be more than one defective control for a single case. The research showed that there were 49 different internal controls in Iowa that were defective, which in turn had caused an opening for fraud to occur. The defective control that occurred the most was lack of control over segregation of duties, which is an internal control that is designed to prevent error and fraud by ensuring that at least two individuals are responsible for the separate parts of any task. When there is a lack of segregation of duties, it means that one person is doing the job without any oversight. This defective control occurred 31 times in the fraud cases within the state Iowa. The next defective control that occurred was the lack of supporting documents, which is written information attached to documents that provide backup and depth to agreed-upon or discussed items. When there is a lack of supporting documents, this means there was partial or no documentation. This defective control happened 16 times in the fraud cases in Iowa. The next defective control is lack of control over disbursements, which is the payment of money from a fund. When there is a lack of control, the payment money was not used for the correct intention. This defective control happened 11 times in the fraud cases in Iowa. The final defective control that happened the most was lack of control over cash receipts, which are the collections of money, typically from a customer. When it is defective, the collections were not deposited into the proper account. This defective control happened seven times in the fraud cases in Iowa.

40 different internal controls were defective for the state of Louisiana. The defective control that occurred the most was lack of school board oversight, which would mean the school board is responsible for ensuring that the organization is appropriately stewarding the resources entrusted to it and following all legal and ethical standards. When it is defective then there would be partial or no oversight from the school board. This defective control happened six times in the

fraud cases within the state of Louisiana. The next defective control that happened was lack of control over improper leave reimbursement, which would be the person was reimbursed for leave time when they were not supposed to be reimbursed. This defective control happened four times in the fraud cases in Louisiana. The next defective control was lack of control over payroll, which is a list of an organization's employees and the amount of money they are to be paid. When it is defective, the amount of money was altered or changed. This control happened three times in the fraud cases in the state. The final defective control that happened the most was lack of control over improper use of credit cards, which would be the use of the organizational credit cards for an unauthorized purpose. This control happened three times in the fraud cases in the state.

For the state of Ohio, there were 23 different internal controls that were defected. The defective control that occurred the most was lack of control over segregation of duties, which is an internal control that is designed to prevent error and fraud by ensuring that at least two individuals are responsible for the separate parts of any task. When there is a lack of segregation of duties, it means that one person is doing the job without any oversight. This control happened two times in the fraud cases in the state. The next defective control was lack of control over financial accountability, which is the responsibility for the way money is used and managed. When it is defective, the money would be mismanaged. This defective control occurred two times in the fraud cases in the state. The next defective control was lack of school board oversight, which would mean that the school board is responsible for ensuring that the organization is appropriately stewarding the resources entrusted to it and following all legal and ethical standards. When this is defective, there would be little or no oversight from the school board. This control happened two times in the fraud cases in the state. The final control to

happen most of the time was lack of control over credit card policies, which clarifies the terms of use of the organizations card issued in employees' names. When it is defective, there is no control over the use of credit cards so there was nothing to be followed for proper use. This control occurred two times in the fraud cases within the state.

For the state of Oklahoma, there were 28 different internal controls that were defective. The defective control that occurred the most was lack of proper review, which would be a formal assessment or examination of something with the possibility or intention of change. When this is defective, there would be no oversight. This defective control occurred four times the fraud cases in the state. The next was there was not a defective control. This happened four times in the fraud cases in the state. The next defective control was lack of control over compensation, which would be salaries paid. When this is defective, there would be an overpayment or payment to an improper person. This defective control occurred four times in the fraud cases within the state. The final defective control that occurred most of the time was lack of school board oversight, which would mean that the school board is responsible for ensuring that the organization is appropriately stewarding the resources entrusted to it and following all legal and ethical standards. When this is defective, there would be little or no oversight from the school board. This defective control happened three times in the fraud cases within the state.

For the state of Washington, there were 20 different internal controls that were defective. The defective control that occurred that most was lack of control over monitoring, which would observe and check the progress or quality of something over a period of time. When this is defective, there would be not oversight. The defective control occurred 11 times in the fraud cases within the state. The next defective control that occurred was lack of control over adequate oversight, which would be the processes are being reviewed by the proper authority. When this it

defective, there would be no proper authority for oversight. This defective control occurred nine times in the fraud cases within the state. The next defective control that occurred would be lack of control over safeguard public resources, which would be the monies, time, property, facilities, equipment, and supplies of the organization that need to be protected. When this is defective, there would be no control over the assets. This defective control occurred seven times in the fraud cases within the state. The final control that occurred the most was lack of control over cash receipts, which are the collections of money, typically from a customer. When this is defective, the payments are not deposited into the proper account. This defective control occurred five times in the fraud cases within the state.

According to the data in the state of Iowa, segregation of duties is the largest defective control when it comes the fraud happening. This can be because in some of the smaller school districts or the ones that have less resources, may not have as many positions available as compared to larger school districts. It may be necessary for them to have the same person doing multiple tasks because they have no other option. For the state of Louisiana, the largest defective control was school board oversight. This can be because the school board was not informed of something, they were just overlooked in the situation. This could also be because a member of the school district was intentionally trying to hide something from them, so there could be no oversight. The state of Ohio had a tie for the top spot between four different defective controls. The state of Oklahoma had a tie between three for the most defective controls. For the state of Washington, the most defective control was monitoring. This can be because there might not be enough resources to be able to monitor everyone in the district or not enough individuals within the district.

Iowa

The research showed there were several trends within the data. The longer the case was, the larger the dollar amount taken during the fraud. The same went for when the case was shorter, there was less money taken during the fraud.

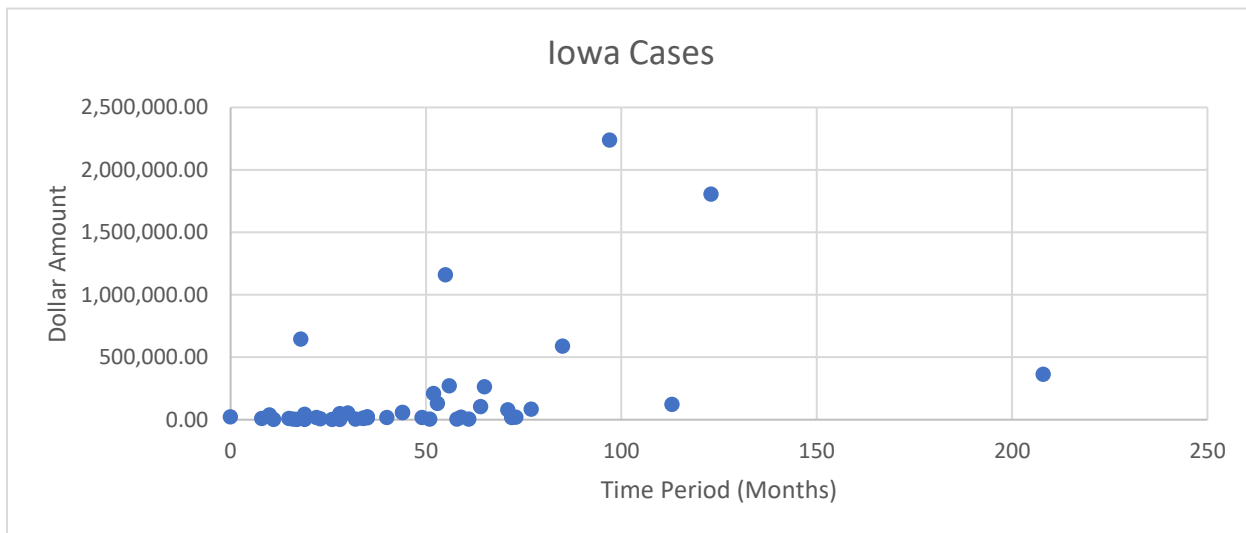


Figure 2: Iowa Cases

Figure 2 gives an overview for the state of Iowa regarding the dollar amount taken and the time period of the fraud. More money that was taken, the more students that were in the school district. It also goes in the opposite direction, when less money was taken, there were fewer students within the school district. When the fraud was committed by an Accounting/Bookkeeping position, there were more students within the school district. When a Coach or Lower-Level Employee was involved with the fraud, the number of students within the school district was in the middle or on the lower side of enrollment. When the case involved an Administrator, the length of the case was in the middle or more on the lower side. The longest case involving an Employee was 6.42 years. The average within the state was 3.83 years. The

longest case involving an Administrator was 17.33 years. The Coach had a case of 10.25 years.

When it came to the Accounting/Bookkeeping position, the longest case was 7.07 years.

Louisiana

The research has shown several trends within the data. To start with, the shorter the case was, the less money that was stolen.

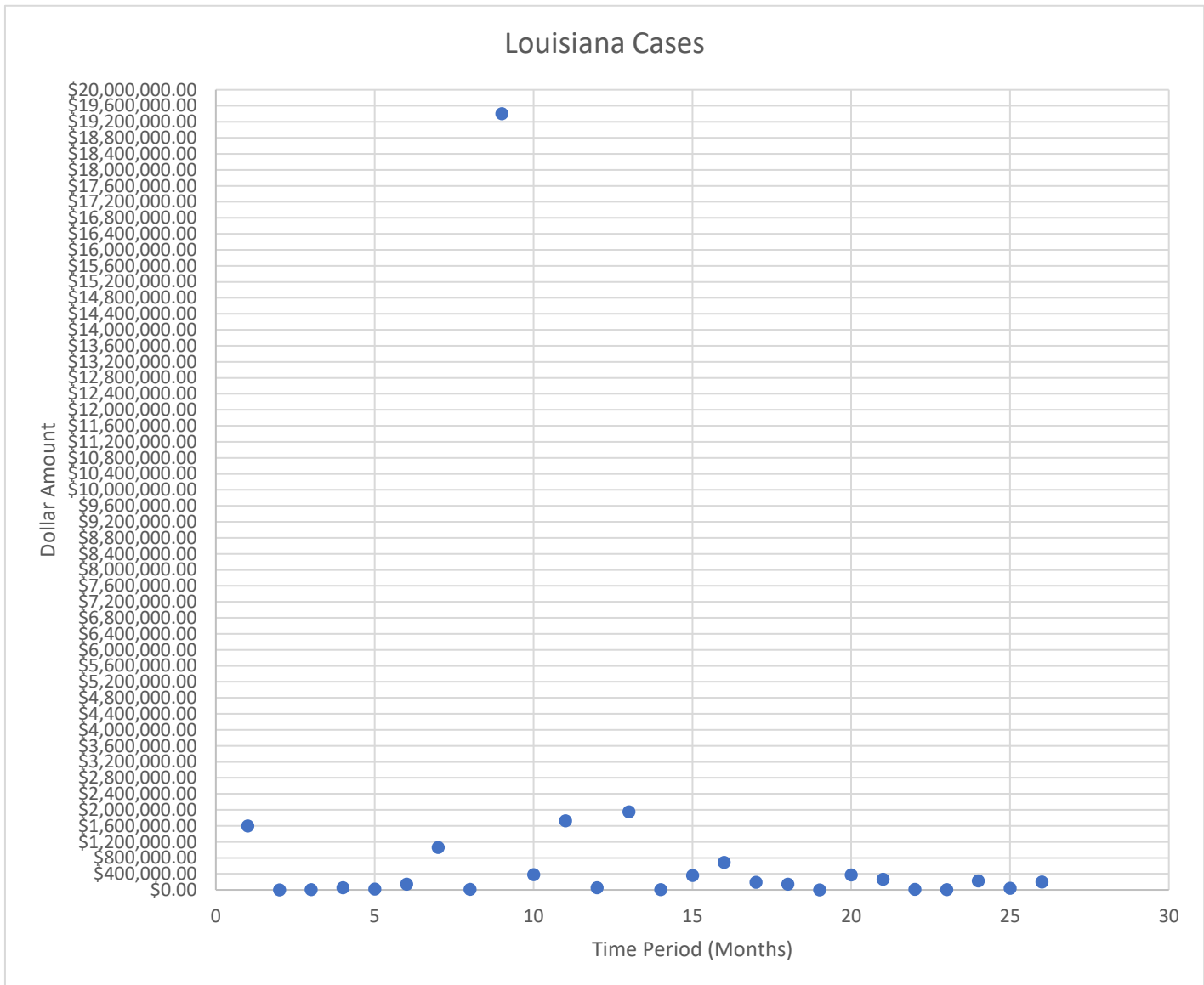


Figure 3: Louisiana Cases

Figure 3 shows an overview of the cases in Louisiana regarding the dollar amount and the duration of the case. When frauds were committed, more money was taken when there were more students within the district. It is also the opposite way, when less money was taken, there were less students in the school district. When a School Board or Accounting/Bookkeeping position committed the fraud, the less students that were within the district. The longest case that involved the School Board position lasted 4.91 years. The average for the state was 2.82 years. A case involving a Lower-Level Employee lasted 8.42 years. The longest case involving the Accounting/Bookkeeping lasted 8.92 years. The longest case involving the Administrator position lasted three years. When an Administrator or a Lower-Level Employee committed the fraud, the more students who were within the district.

Ohio

The research has shown several trends in the data. About half of the time, the longer the case went on, the more money was taken.

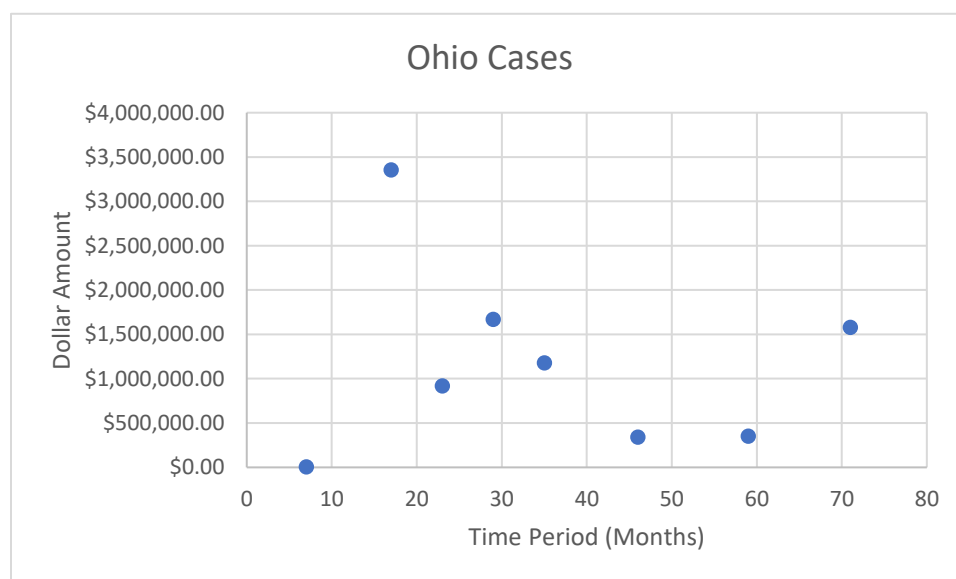


Figure 4: Ohio Cases

Figure 4 shows the cases in the state of Ohio regarding the dollar amount taken and the duration of the fraud. When more money was taken during the duration of the fraud, there were less students in the school district. The frauds that were committed by School Employees happened when there were less students enrolled in the district. This happened 85.71% of the time. The longest case in the category of Non-employee was 1.42 years. The average for the state was 2.99 years. The longest case in the category of Administrator lasted 5.92 years. The longest case involving the Accounting/Bookkeeping position was 4.92 years. The longest case in the category of School Board was 2.42 years. The longest case for the category of the Lower-Level Employee lasted 2.92 years.

Oklahoma

The research showed several trends in the data. This data suggests no correlation between the duration and the amount taken during the fraud.

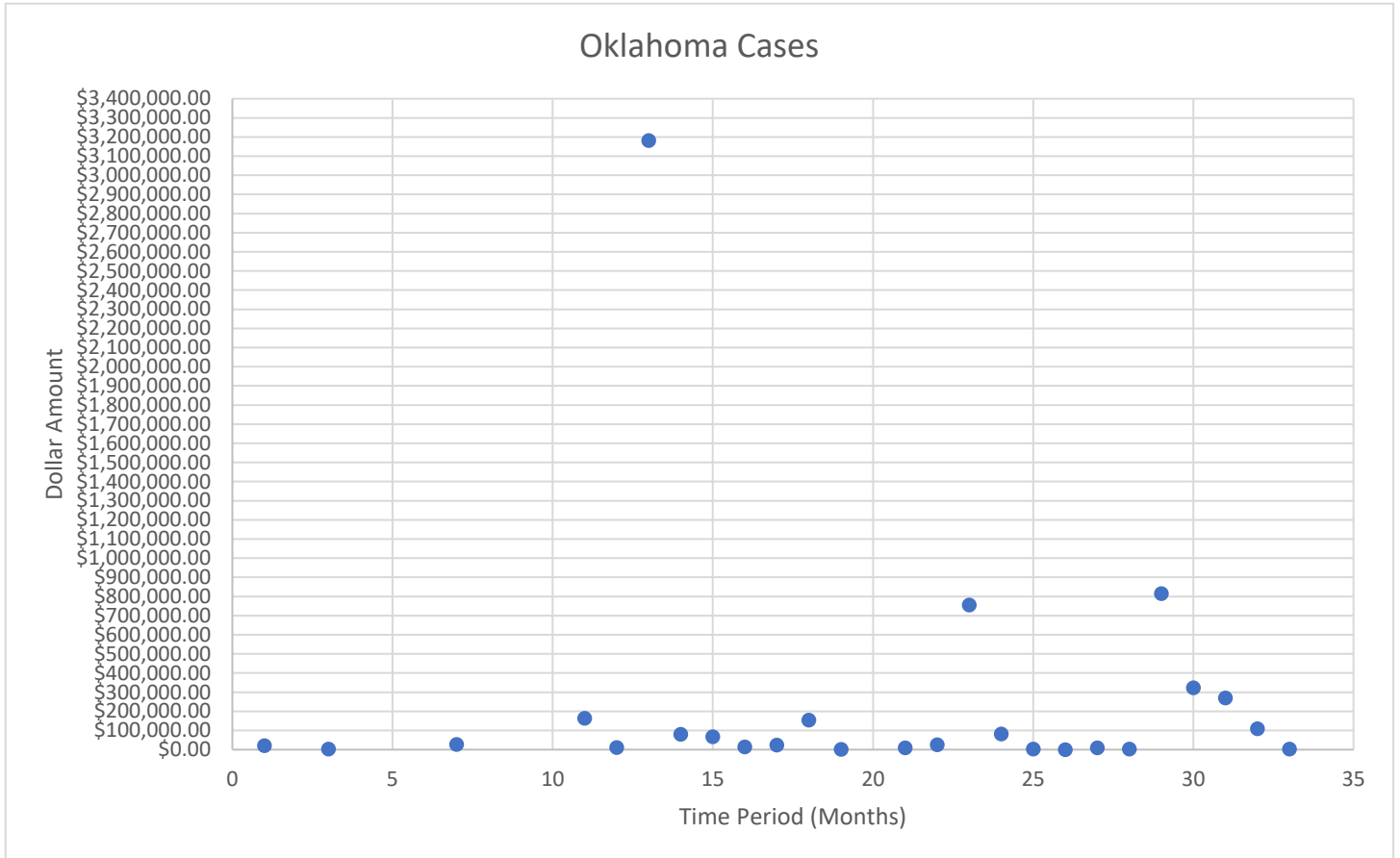


Figure 5: Oklahoma Cases

Figure 5 shows the cases in the state of Oklahoma regarding the dollar amount taken and the time period of the frauds in months. For the state of Oklahoma, there was less money taken when the length of the case was shorter. When the fraud was committed by the category of the School Board, the number of students were irrelevant. When an Administrator committed the fraud, there were less students in the school district. When a Lower-Level Employee committed the fraud, it happened at the middle-sized school districts. When it came to the length of the case and the category of the person, the School Board had the longest case and the shortest case.

When an Administrator committed the fraud, it was for a middle to a shorter length of time. The longest case was the category of School Board was 5.92. This is compared to state average of 2.24 years. The category of Lower-Level Employee had a case length of 3.67 years, which was the longest for the category. The longest case for the Administrator was 3.58 years. The longest case involving the category of Non-employee was 4.67 years.

Washington State

The research showed several trends in the data. When the fraud case was longer, there was more money taken during the duration of the fraud. The same can be said for the opposite. When the case was shorter, there was less money taken.

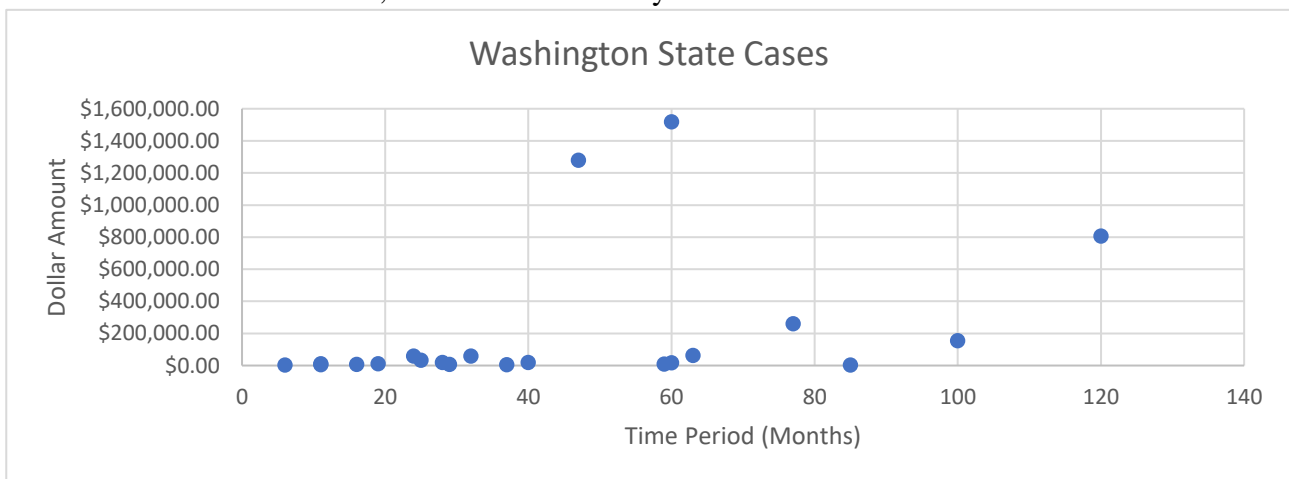


Figure 6: Washington State Cases

Figure 6 shows the cases in the state of Washington regarding the dollar amount taken and the duration of the fraud. The more money that was taken, the larger number students in the school district. The same can be said for the opposite of that. The less money that was taken, the less students that were within the school district. When a Lower-Level Employee committed the fraud, there was a widespread difference among the number of students. It stretched from the lowest number of students to the largest number of students. When the category of Accounting/Bookkeeping committed the fraud, it was in the middle to the highest number of

students. The Administrator had the longest length of case. The longest case involving a Lower-Level Employee was 8.33 years. That is compared to the average for the state of 3.77 years. The longest case involving the category of an Administrator was 10 years. The category of Accounting/Bookkeeping had a case length of 5 years. The longest case involving a Coach was 3.08 years.

Conclusion

When frauds happen in the public-school districts, it can have an impact on everyone within the district. It can also have an impact on the taxpayers. There are several things that can lead to fraud happening. The results showed it was mainly when there was a defective control or when there was no control in place at all. The results also showed that in some states the number of frauds happening in schools were mainly discovered in the last 15 years. Some school districts can be at a disadvantage because of the resources available or the small number of employees. The school districts need to be able to implement the controls they have and look at ways to help improve controls that are defective or that have the potential to be defective. The main reason the school districts become a likely target of fraud is that the controls they have in place are not effective. The results also showed that one of the main reasons as to why the auditor became involved was because someone within the district was suspicious of some activity. Once the auditor was notified, the suspicion was investigated. It is important to remember that internal controls are put in place to help reduce the probability of a fraud occurring.

The limitations within the research would be this research only covered K-12 public school districts, not K-12 private school districts. Another limitation would be the data was restricted to what the state auditors found during their investigation and within the report they published. This can come about because some frauds are not formally written up by the state

auditors. The next limitation would be that some frauds are investigated internally, which would mean the data from the investigation would not be included within the state auditor reports. The last limitation was the availability of auditor reports within the states. The recommendation for future research would be to look at the data for colleges and the private sector of K-12 school districts. This applies in the accounting field because auditors will be the ones to look into the suspicious activity within the school districts and doing the audit reports. Auditors will also be the ones who evaluate the internal controls and the frauds that happened in the past, and will help shape the scope of future audits. This matters to the world because it will have an impact on the taxpayers. Taxpayers are the ones who suffer from the frauds happening because it has the possibility to increase the amount of state taxes. Overall, K-12 school district frauds can have a big impact on the people within the school district and their surrounding community.

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Appendix

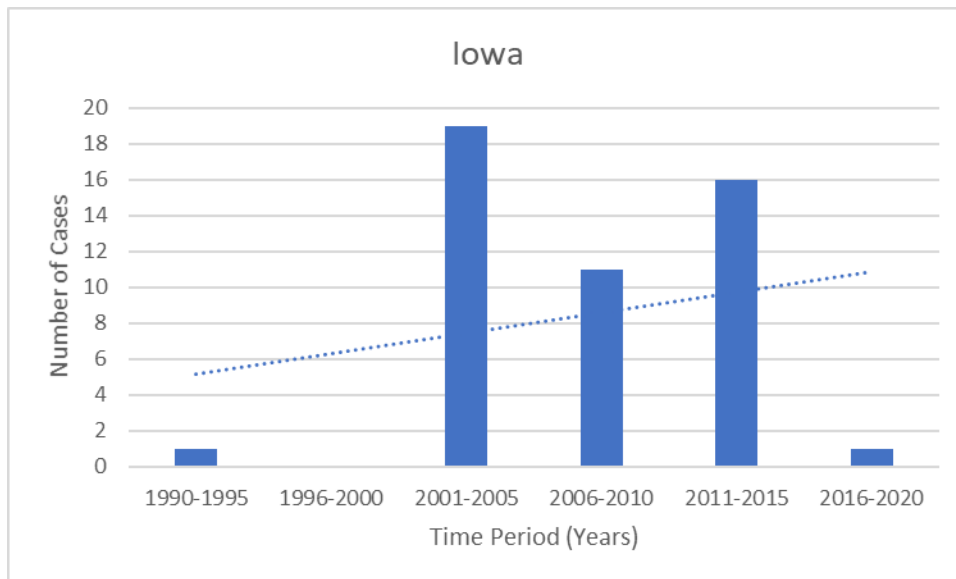


Figure 7: Trends in Iowa

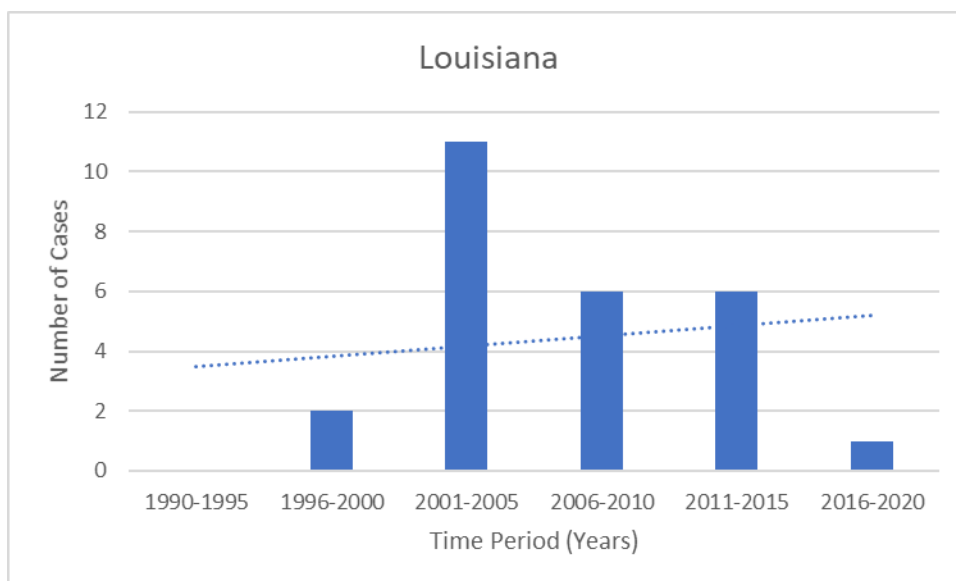


Figure 8: Trends in Louisiana

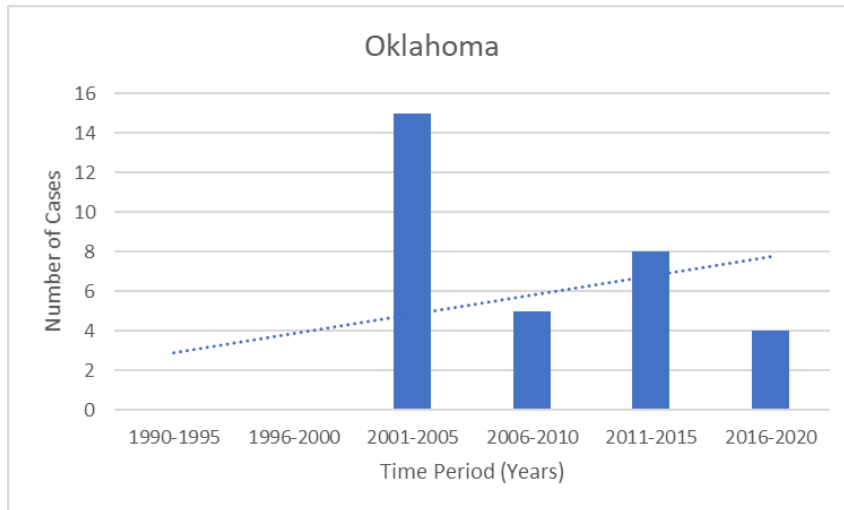


Figure 9: Trends in Oklahoma

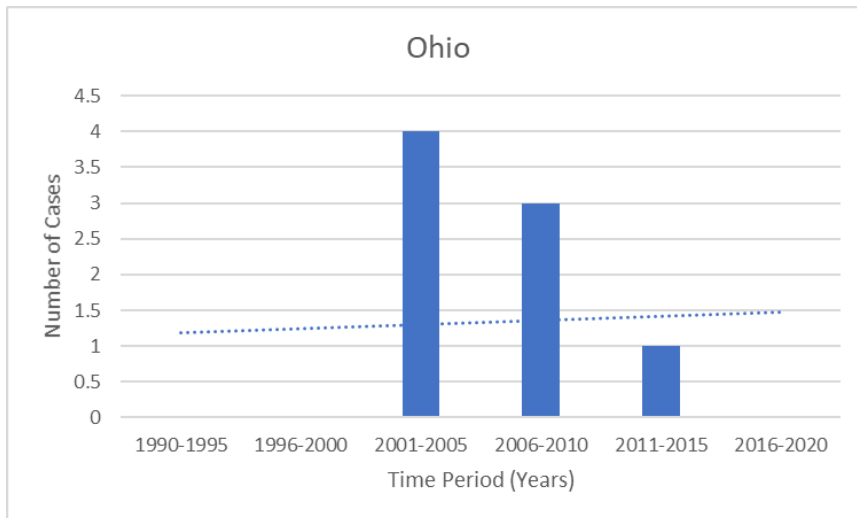


Figure 10: Trends in Ohio

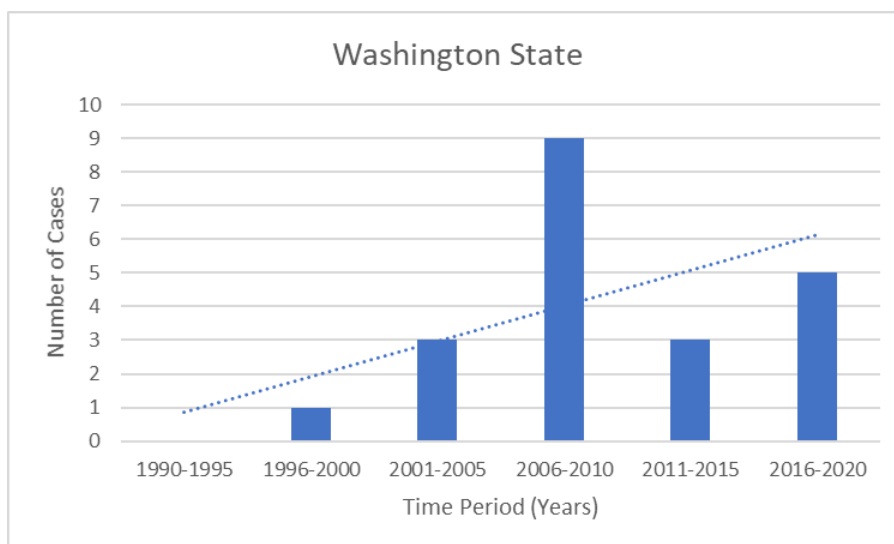


Figure 11: Trends in Washington State

| Defective Controls in Iowa | Occurrence |
|--|-------------------|
| Lack of Control Over Segregation of duties | 31 |
| Lack of Supporting Documents | 16 |
| Lack of Control over Disbursements | 11 |
| Lack of Control Over Cash Receipts | 7 |
| Lack of Control Over Financial Accounting Records | 7 |
| Lack of Control Over Payroll | 7 |
| Lack of Control Over Activity Gate Receipt | 7 |
| Lack of Control Over Lunch Accounts | 7 |
| Lack of Control Over Collection Records | 6 |
| Lack of Control Over Approval of Fundraisers | 6 |
| Lack of Reconciliation | 6 |
| Lack of Control Over Activity Funds | 6 |
| Lack of Control Over Procurement Cards | 5 |
| Lack of Control Over Undeposited Collections | 5 |
| Lack of Control Over Separately Maintained Bank Accounts | 5 |
| Lack of Control Over Improper Use of District Equipment | 4 |
| Lack of Control Over Prenumbered Reports | 4 |
| Lack of Control Over Purchases | 4 |
| Lack of Control Over Notification | 3 |
| Other | 41 |
| Total | 188 |

Table 5: Summary of Defective Controls in Iowa

| Defective Controls in Louisiana | Occurrence |
|--|-------------------|
| Lack of School Board Oversight | 6 |
| Lack of Control Over Improper Leave Reimbursements | 4 |
| Lack of Control Over Payroll | 3 |
| Lack of Control Over Improper Use of Credit Cards | 3 |
| Lack of Control Over Procurement Policy | 3 |
| Lack of Control Over Checks Deposited- Not Recorded Properly | 2 |
| Lack of Control Over Funds Collected- Not Deposited or Recorded | 2 |
| Lack of Control Over Weak Business Practices | 2 |
| Lack of Control Over Additional Compensation | 2 |
| Lack of Control Over State Vehicle | 2 |
| Lack of Control Over Funding Guidelines | 2 |
| Lack of Control Over Budgeting and Financial Management | 1 |
| Lack of Control Over Disbursements | 1 |
| Lack of Control Over Computer Controls | 1 |
| Lack of Control Over Capital Assets | 1 |
| Lack of Control Over Attendance Records | 1 |
| Lack of Control Over Travel | 1 |
| Lack of Control Over Faculty/Staff Meals Provided Without Proper Payment | 1 |
| Lack of Control Over Noncompliance with State Law | 1 |
| Other | 20 |
| Total | 59 |

Table 6: Summary of Defective Controls in Louisiana

| Defective Controls in Ohio | Occurrence |
|---|------------|
| Lack of Control Over Segregation of Duties | 2 |
| Lack of Control Over Financial Accountability | 2 |
| Lack of School Board Oversight | 2 |
| Lack of Control Over Credit Card Policies | 2 |
| Lack of Control Over Record Keeping/ Reporting Requirements | 1 |
| Lack of Control Over Start-up Grant Expenditures | 1 |
| Lack of Control Over Fixed Asset Policy | 1 |
| Lack of Control Over Inventory | 1 |
| Lack of Control Over Procedures for Recording Assets Acquired | 1 |
| Lack of Control Over Procedures for Recording Assets Disposal | 1 |
| Lack of Control Over Lack of Policies | 1 |
| Lack of Control Over Check Voids | 1 |
| Lack of Control Over Check Sequence | 1 |
| Lack of Control Over Related Party Lease | 1 |
| Lack of Control Over Management Weakness | 1 |
| Lack of Control Over Record Keeping Weakness | 1 |
| Lack of Reconciliation | 1 |
| Lack of Control Over Unauthorized Activity | 1 |
| Lack of Control Over Travel Policies | 1 |
| Other | 3 |
| Total | 26 |

Table 7: Summary of Defective Controls in Ohio

| Defective Controls in Oklahoma | Occurrence |
|--|-------------------|
| Lack of Proper Review | 4 |
| No Recommendation | 4 |
| Lack of Control Over Compensation | 4 |
| Lack of School Board Oversight | 3 |
| Lack of Control Over Travel Reimbursement | 3 |
| Lack of Control Over Maintain Proper Documentation | 3 |
| Lack of Control Over Supporting Documentation | 3 |
| Lack of Control Over Purchasing Policies and Procedures | 3 |
| Lack of Control Over Procedures for Vendor Bids | 3 |
| Lack of Control Over Approval for Time Sheets | 2 |
| Lack of Reconciliation | 2 |
| Lack of Control Over Reimbursement Meals | 2 |
| Lack of Control Over Revising Procedures | 1 |
| Lack of Control Over Management Policies and Procedures | 1 |
| Lack of Control Over Proper Training for Employees | 1 |
| Lack of Control Over Attendance Tracking System | 1 |
| Lack of Control Over Board Minutes- Vendor Approval | 1 |
| Lack of Control Over Prior Year Expenditure Policies and Procedures | 1 |
| Lack of Control Over Injury Forms- Properly and Accurately Completed | 1 |
| Other | 8 |
| Total | 51 |

Table 8: Summary of Defective Controls in Oklahoma

| Defective Controls in Washington State | Occurrence |
|--|-------------------|
| Lack of Control Over Monitoring | 11 |
| Lack of Adequate Oversight | 9 |
| Lack of Control Over Safeguard Public Resources | 7 |
| Lack of Control Over Cash Receipts | 5 |
| Lack of Control Over Proper Documentation | 4 |
| Lack of Control Over Payroll | 3 |
| Lack of Control Over Credit Card Charges | 3 |
| Lack of Control Over Receipting and Inventory Reconciliation | 2 |
| Lack of Control Over Procedures to Protect Public Assets | 2 |
| Lack of Control Over Provide Proper Training | 2 |
| Lack of Reconciliation | 2 |
| Lack of Control Over Petty Cash | 2 |
| Lack of Control Over Segregation of Duties | 1 |
| Lack of Control Over Travel Reimbursement | 1 |
| Lack of Control Over Community Activities Program Revenues | 1 |
| Lack of Control Over Vendor Card Charges | 1 |
| Lack of Control Over Financial Activity | 1 |
| Lack of Control Over Inventory | 1 |
| Lack of Control Over Vendor Verification | 1 |
| Total | 59 |

Table 9: Summary of Defective Controls in Washington State