

OHIO AUDITOR OF STATE
KEITH FABER



Fraud Prevention/ Student Activity Account Best Practices

**OASBO 2019
Regional Accounts Payable
& General Accounting Seminar**

Agenda



Fraud Prevention

Student Activities

Credit Cards



STOP FRAUD

How to Report Fraud

Report It Now

Use our Mobile App*

[Find Out How](#)

Call the Special Investigations
Unit

1-866-Fraud-OH

[1-866-372-8364](tel:1-866-372-8364)

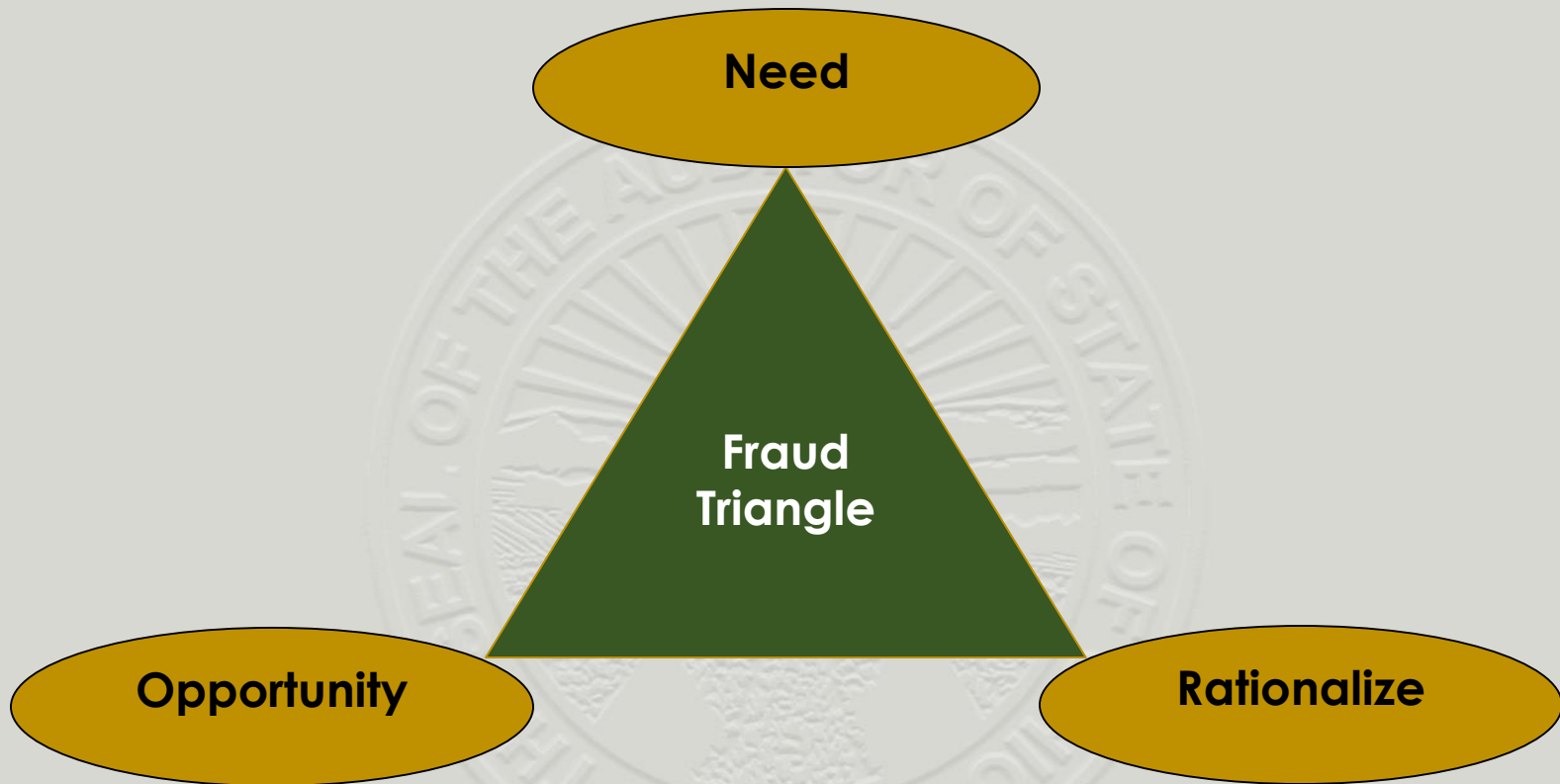
E-mail your Tip*

fraudohio@ohioauditor.gov

Write a letter

88 E. Broad St. PO #1140
Columbus, Ohio 43215

Cressey's Fraud Triangle



Warning Signs - Behavioral



Warning Signs - General



Generally Most High-Risk Areas

Cash

- Easiest to grab
- Sometimes poor controls

Credit Cards

- Easy to use, easy to abuse
- Controls, Controls, Controls!

Fraud Schemes



Payroll

- Employee fraudulently generates overcompensation on his/her behalf.
- Most common payroll frauds:
 - Ghost employee; Falsified hours and salary



Check Tampering

- Employee prepares a fraudulent check for his/her own benefit; or
- Employee intercepts a check intended for a third-party and converts the check



Expense Reimbursement

- Mischaracterized expense reimbursements;
- Overstated expense reimbursements;
- Fictitious expense reimbursements;
- Multiple reimbursements

Fraud Schemes (cont'd)

Cash Register

- **Common at Schools**

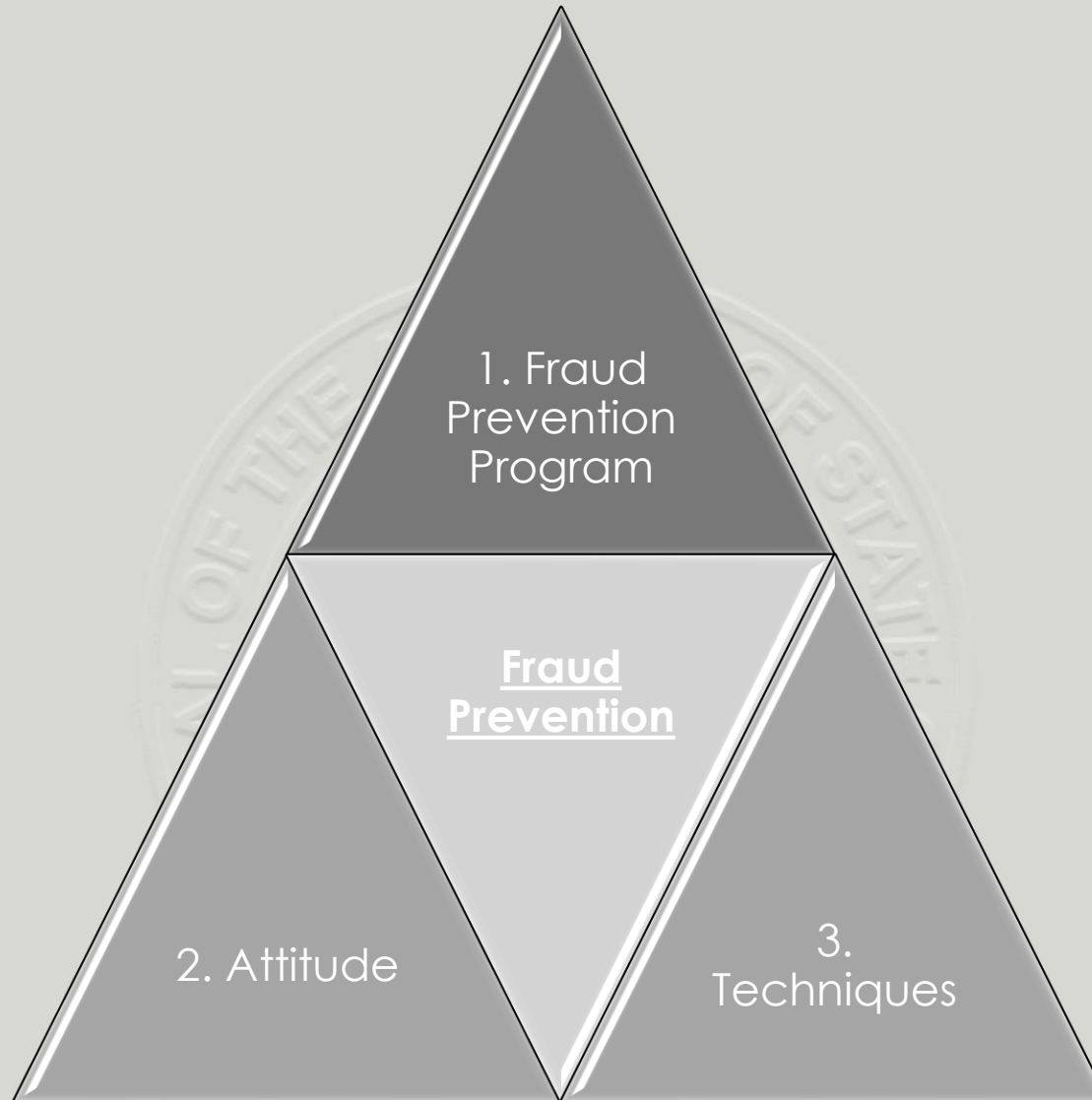
- In practice, employee removes cash from register, then
- Enters refund or voids sale to cover up theft.

Billing

- **Most common and costly disbursement fraud.**

- Fraudster provides false support;
 - Invoices, purchase orders, purchase requisitions, receiving reports, etc.
- District issues check based on false information
- Purpose for most billing schemes is to generate cash or goods for sale
- Cause District to buy goods or services that are:
 - Nonexistent;
 - Overpriced;
 - Not needed by the District.

Fraud Prevention



Fraud Prevention:

1. Fraud Prevention Program

**Appropriate
Ethical
Training**

**On-going Risk
Assessment
Program**

**Written
Policies &
Procedures**

**Internal
Controls**

**Segregation of
Duties and
Reconciliation**

**Fair &
Balanced
Discipline**

**Audit
Committee**

Fraud Prevention:

1. Fraud Prevention Program, cont.

Do you have an audit committee?

Does it rarely meet?

Do they pass on tips received?



Do you have internal controls?

Are they enforced?



Do you have an ethics policy?

Is it communicated?



Fraud Prevention:

2. Attitude

Attitude

The
Importance
of Exercising
Professional
SKEPTICISM

**Trust but
Verify!**

Fraud Prevention:

3. Techniques

Segregation of Duties

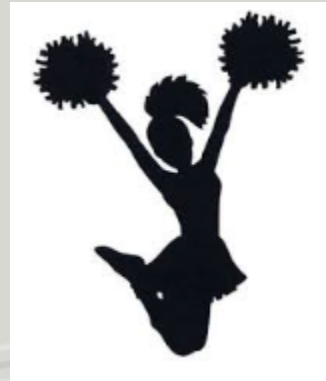
- Disperse critical functions of a process to more than one person or department
- In general, the approval function, the accounting/reconciling function, and the asset custody function should be separated among employees
- Consider separating: cash rec's, cash counts, bank dep's, recon's, posting dep's
- When not feasible, a detailed supervisory review of related activities is required

Reconciliation

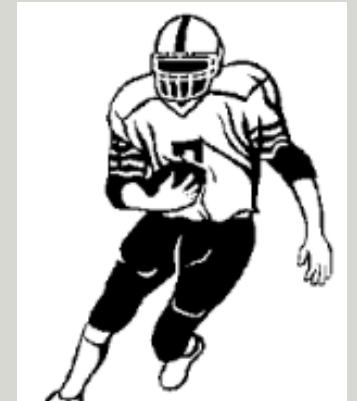
- Checks & Balances
- For example, month-end reconciliations comparing ledgers to bank statements
- Think about your own checkbook - comparing bank statements with register

Oversight

- Asking the right questions of employees (including fiscal employees)
- If you don't know/understand, ask
- If nothing else, you will gain a better understanding of your Districts functions



Student Activities



Student Activities - Agenda



Authority Administration



Policy Development

- General Student and District Managed Activities
- Fund Raising Policies
- Purchasing Policies
- Dormant Funds



Management of Student Activity Programs

- Student Managed Student Activity Programs
- District Managed Student Activity Programs

Student Activities - Authority

ORC § 3315.062 permits a board of education to expend funds for student activity programs. This sections states:

- The Board of Education of any school district may expend monies from its general revenue fund for the operation of such student activity programs included in the program of each school district as authorized by the its board of education. Such expenditures shall not exceed five-tenths of one percent of the board's annual operating budget.


Student Activities - Authority

ORC § 3315.062 further states:

- If more than \$50 a year is received through a student activity program, the monies from such a program shall be paid into an activity fund established by the board of education.
- The Board of Education shall adopt regulations governing the establishment and maintenance of such fund, including a system of accounting to separate and verify such transactions and to show the source from which the fund revenue is received, the amount collected from each source, and the amount expended for each source. Expenditures from the fund shall be subject to the approval of the board.

Student Activities - Administration

Board of Education

- 
- Adopt, by resolution in official board minutes, rules, regulations, and policies to govern the establishment and operations of student activity funds (Funds 200 and 300), authorization of related organizations, as well as the participation of students and school district employees in fund raising programs of these related organizations.

Student Activities - Administration

Treasurer

- Responsible for enforcement of accounting procedures and internal control procedures
- Custodian of all funds (ORC 3313.51)
- May delegate an employee to receive custody of student activity funds.
- The custodian must deposit monies, with the treasurer or properly designated depository, in accordance with district policies and ORC § 9.38.

Student Activities - Administration


Superintendent



- Responsible for administering all board policies, except those required of the treasurer


Student Activities - Administration

Principal

- 
- Principal or authorized administrator is responsible for the approval of requisitions for the expenditure of funds and any other duties as assigned by the superintendent of the school district.


Student Activities - Administration

Advisor

- 
- Prepare annual budgets and purpose clauses of the activity group
 - Supervise the activities of the group, including preparation of fund raising potentials, proofs of cash, and other appropriate documentation
 - Any other duties as assigned by the proper administrative authority


Student Activities – Policy Development

General Student and District Managed Policies


- 
- Formulate an overall policy statement which governs the management and control of all student managed student activity programs.
 - Formulate an overall policy statement which governs the management and control of all district managed student activity programs.
 - Guidelines for each are included in a manual on the AOS internet page.

Student Activities – Policy Development

General Student and District Managed Policies (cont'd)


- 
- The appropriate administrative personnel, as authorized by the board of education should develop administrative guidelines and or an administrative handbook that addresses specific rules, regulations, guidelines, and procedures to be followed in the management and day-to-day operations of student and district managed activities.

Student Activities – Policy Development

- 
- Create fund raising policies.
 - Develop purchasing procedures.
 - Areas that should be addressed are included in manual on AOS internet page.

Student Activities - Policy Development

Dormant Funds


- 
- Each school district should adopt a policy governing the disposition of funds remaining after a specific student activity group is dissolved.
 - Appropriate methods include authorized expenditures, donation of remaining funds to another student activity program, or transfer of funds in accordance with legal requirements.

Student Managed Student Activity Programs




- Fund 200
- Includes those student activities which consist of a student body, student president, student vice-president, student treasurer, and faculty advisor.
- The purpose should be to promote the general welfare, education, and morale of the students and to finance the normal, legitimate co-curricular activities of the student body organizations.

District Managed Student Activity Programs

- 
- Fund 300
 - Usually include athletic programs but could also include the band, cheerleaders, flag corps, and other similar types of activities.
 - The purpose of the programs should be to promote participation in those activities associated with the programs. This policy statement should create the parameters within which all of these activity programs can achieve this purpose and operate effectively.

Student Activities

Budgetary Process

- 
- The school district is required to include all activities related to Fund 300 in their formal budgetary process.

Student Activities



GASB 84: Fiduciary Activity

- Effective Fiscal Year Ending 6/30/20
- Change in Student Activities Reporting



Budgetary Process

- The school district is also now required to include all activities related to Fund 200 in their formal budgetary process.

Student Activities

Collection and Deposit of Cash



- Each board of education should review the structure and organization of their school district to determine the most appropriate procedures to implement. The policies and procedures should be designed to ensure accountability over cash receipts.

Student Activities

Need More Info?

- Auditor of State Guidelines for Student Activity Programs –
http://www.ohioauditor.gov/publications/guidelines_student_programs.pdf



Enacted House Bill 312

Credit Cards



Enacted HB 312 - Credit Cards

**What was
effective
date?**

November
2, 2018

**What is
school district
ORC section?**

3313.311
& 9.21

Enacted HB 312 - Credit Cards

What does this HB do?

Enacts baseline controls and procedures regarding credit cards for all governmental entities throughout the State of Ohio

Eliminates the use of debit cards by governmental entities

Promotes enforcement of credit card policies and procedures

Enacted HB 312 - Credit Cards

Creating a Credit Card Policy

By February 2, 2019 each entity must adopt a written policy for the use of credit card accounts

If your entity currently does not use credit cards, you must adopt a policy prior to using or opening a credit card account

Enacted HB 312 - Credit Cards

What must each policy include?

The officers or positions authorized to use a credit card

The types of expenses for which a credit card may be used

The procedure for acquisition, use, and management of a credit card account and presentation instruments related to the account such as cards and checks

Enacted HB 312 - Credit Cards

What must each policy include (cont'd)?

The procedure for submitting itemized receipts to the treasurer or chief fiscal officer, or their designee

The procedure for card issuance, reissuance, cancellation, and the process for reporting lost or stolen cards

The entity's credit card account(s) maximum limit(s)

The actions or omissions by an authorized user which would qualify as misuse of a credit card

Enacted HB 312 - Credit Cards

How does the HB define a credit card?

A bank, financial institution, or financial depository-issued card

A store-issued credit card (Lowe's, Home Depot, etc.)

An affinity credit card (Online retailers like Amazon, eBay)

Any 'debit' or gift card which is tied to grant money

Any other card which allows the user to purchase an item on credit

Enacted HB 312 - Credit Cards

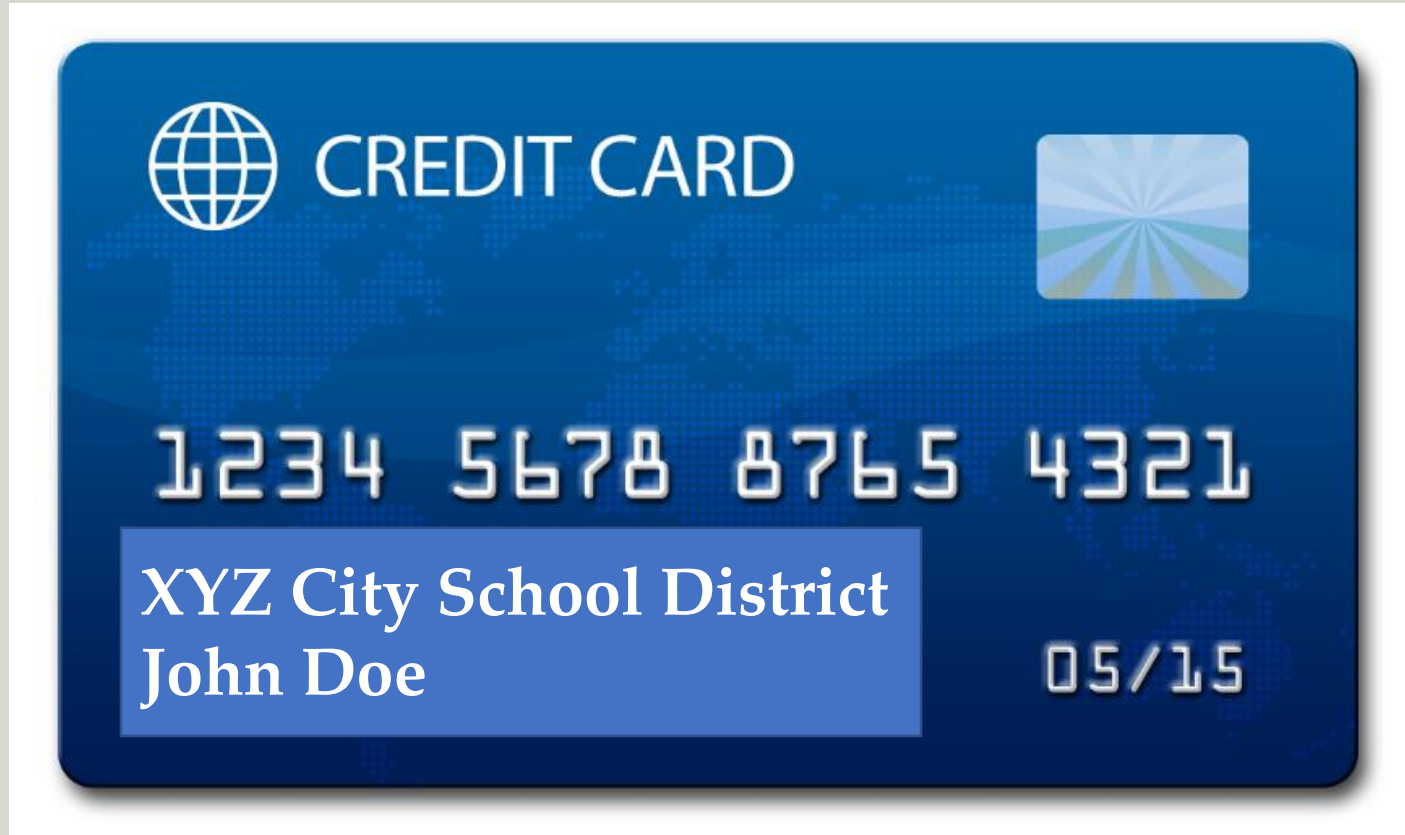
A credit card is not:

A procurement card, a.k.a. P-Card

Gasoline or telephone card

Any other card where merchant category codes are in place as a system of control on the credit card account

Enacted HB 312 - Credit Cards



Each credit card will now be required to at least have the name of the entity on the credit card. This could be in addition to the authorized user's name being listed on the card.

Enacted HB 312 - Credit Cards



Prohibits the use of a debit card except for law enforcement purposes and debit/gift cards which are tied to grant moneys.

Enacted HB 312 - Credit Cards

Custody & Control Model

When the treasurer has custody and control of all of the credit cards and signs them out to users as transactions are needed

Each treasurer should assess an appropriate amount of time for a credit card to be signed out.

The system should not be abused to curtail the necessary controls being enacted into law.

Enacted HB 312 - Credit Cards

Compliance Officer Model

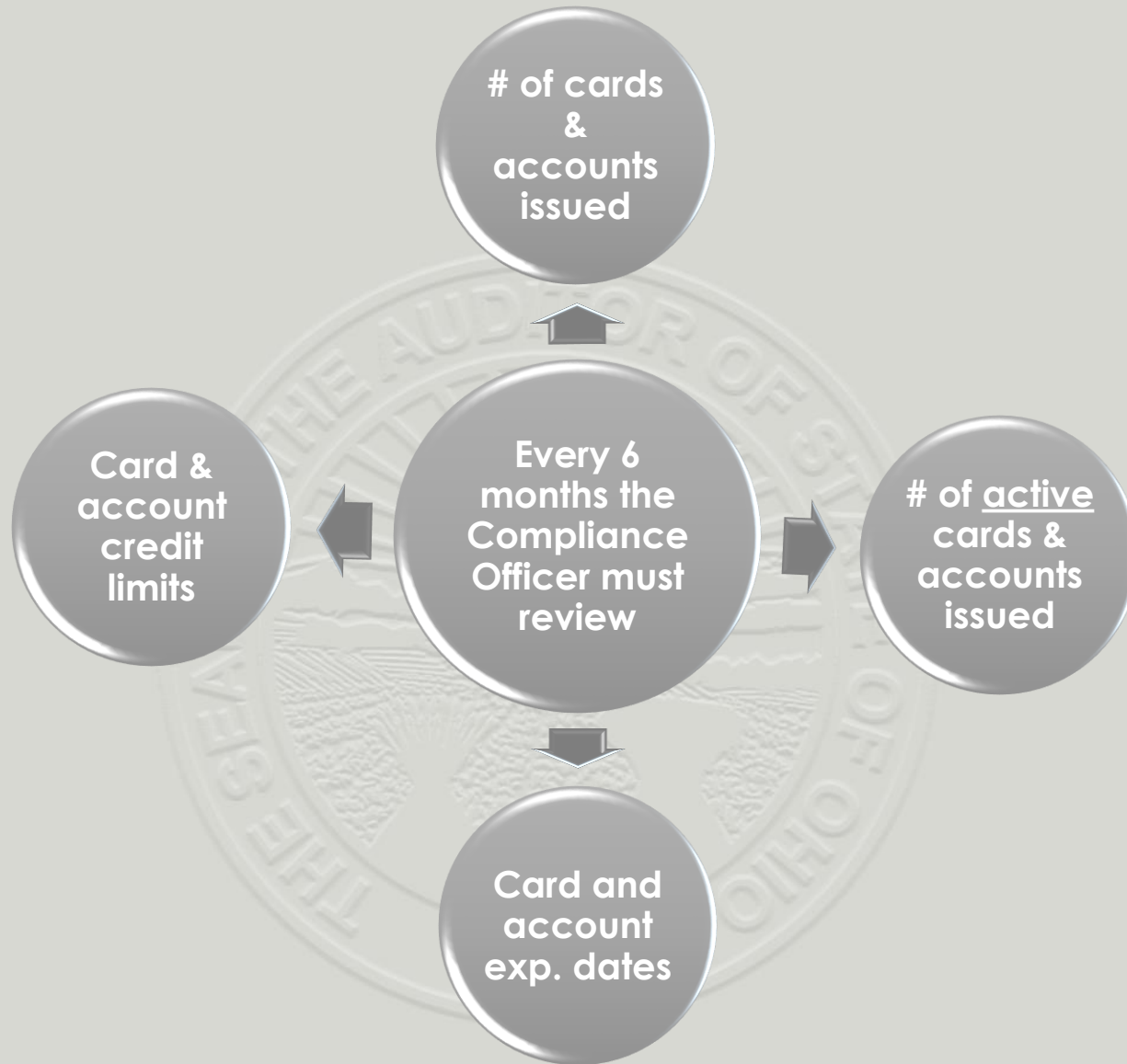
When the treasurer or chief fiscal officer does not retain custody and control of the account and related credit cards and checks.

For a school district, the board appoints a compliance officer in this instance, who may be an existing member of the staff.

The only restrictions are that the compliance officer may not use or authorize anyone else to use a credit card, and the treasurer is not eligible to be the compliance officer.

The Superintendent is able to use a credit card if they are appointed the compliance officer, and an authorized user, but they will be required to have their credit card transaction detail reviewed and approved on a monthly basis with the treasurer or their designee, who shall sign an attestation stating they have reviewed the transaction detail.

Enacted HB 312 - Credit Cards



Enacted HB 312 - Credit Cards

Credit Card Reward Reporting

Credit card rewards are an effective way to help reduce your monthly bill.

The new law provides that the treasurer or chief fiscal officer will annually file a report detailing all rewards received by the entity as a result of its credit card use.

The law was written broadly so each entity can be as granular with their data as they would like.

Enacted HB 312 - Credit Cards

Airline Miles

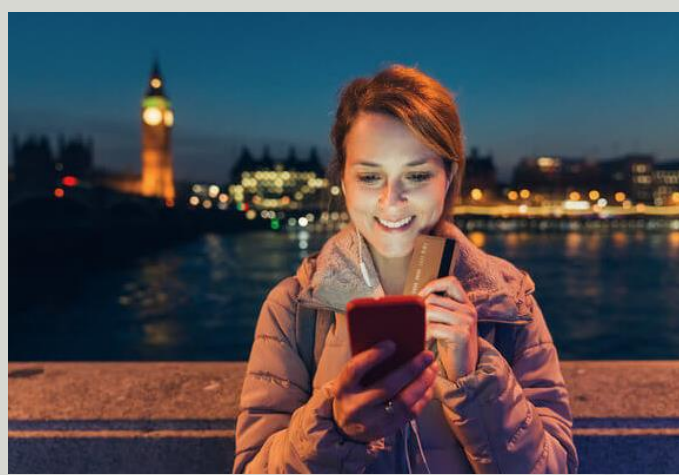
Cash Back

Credit Card Rewards

Points for Free Items

% off Purchases

Enacted HB 312 - Credit Cards



The use of any card or account for expenses beyond those which are authorized by the board, constitute misuse of a credit card. A violation of such starts at a 1st degree misdemeanor, and can rise to a felony under Rev. Code Section 2913.21.



Effective

OHIO AUDITOR OF STATE KEITH FABER



OASBO 2019 Regional Accounts Payable & General Accounting Seminar

Fraud Prevention/Student Activity Account Best Practices

9/10/19 – Columbus – Judy Storey

JASorey@ohioauditor.gov

9/17/19 – Lima – John Monteith

JRMonteith@ohioauditor.gov

9/24/19 – Akron – Joey Jones

JSJones@ohioauditor.gov

10/1/19 - Dayton – Teresa Gray

TLGray@ohioauditor.gov

10/15/19 – Chauncey – Vance Pulley

VRPulley@ohioauditor.gov

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