

HOW TO CONDUCT FRAUD INVESTIGATIONS

Moving From Audits to Investigations

Presented by

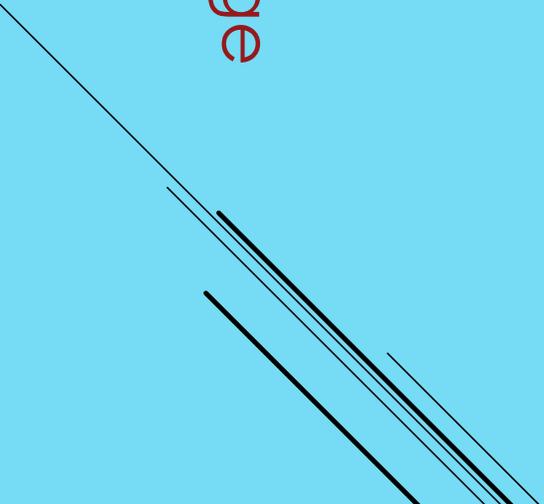
Glenda Ostrander, CFE, CIA, CGFM, CGAP, CRMA

Retired Director of Internal Audit

Gwinnett County Public Schools



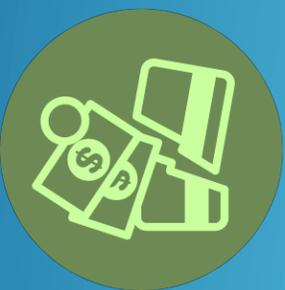
AGENDA

- Introduction
 - Where to start
 - Steps to take
 - Next steps
 - Connections - Who to engage
 - Conclusions
- 

WHAT TO EXPECT



Terminology



Forms of Fraud



Indicators
"Red Flags"



Investigation
Steps

INTRODUCTION

Terminology

- Audit
- Predicate for investigation
- Fraud
- Investigation
- Evidence
- Securing custody of documents
- Chain of custody for evidence
- Interviews
- Research for information
- Communications
- Reporting conclusions



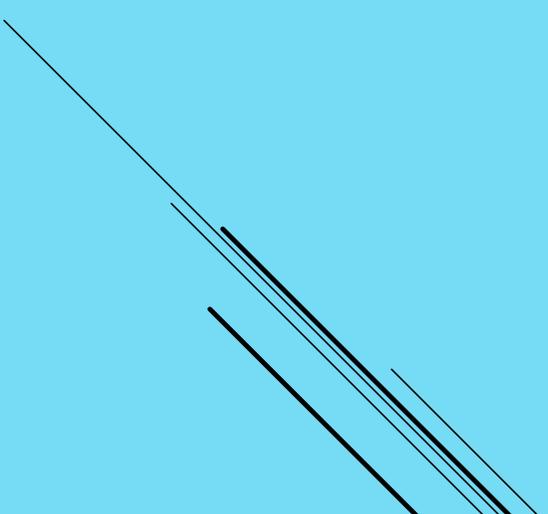
MIND SET







WHERE TO START?





START WITH
AN AUDIT

DEFINITION OF INTERNAL AUDITING

Internal Auditing—An independent, objective assurance and advisory service designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes.

Global Internal Audit Standards - IIA

- ▶ **Helping the organization accomplish its objectives**
- ▶ **Evaluating & improving the effectiveness of risk management, control, and governance processes**
- ▶ **Assurance & advisory service designed to add value & improve operations**
- ▶ **Independence & objectivity**
- ▶ **A systematic & disciplined approach**

COMPONENTS OF THE DEFINITION

COMMON MISPERCEPTIONS

Auditing:

- ▶ Is a boring branch of Accounting
- ▶ Is for nerds - sitting behind a desk crunching numbers
- ▶ Is only after finding mistakes
- ▶ Is the “bad guy”
- ▶ Gets you in trouble



AUDIT KNOWLEDGE, SKILLS, CREDENTIALS

- Continuous learning
- Working knowledge of the IIA Global Internal Audit Standards and other relevant standards
- Interpersonal & communication skills
- Advancement – certification(s) & degrees
- Proficiency
 - Inquiry
 - Observation
 - Inspection
 - Analysis (trends, data, etc.)
 - Gathering information/data
 - Performing direct tests of events & transactions

COMPETENCIES NEEDED TO EXCEL AS AN INTERNAL AUDITOR

Integrity – non-optional; honest & forthright

Passion – intense enthusiasm for the work

Work Ethic – get the right things done the right way

Sensitivity – awareness & response to others & conditions in environment

Curiosity – inquisitiveness

Creativity – problem-solving skills

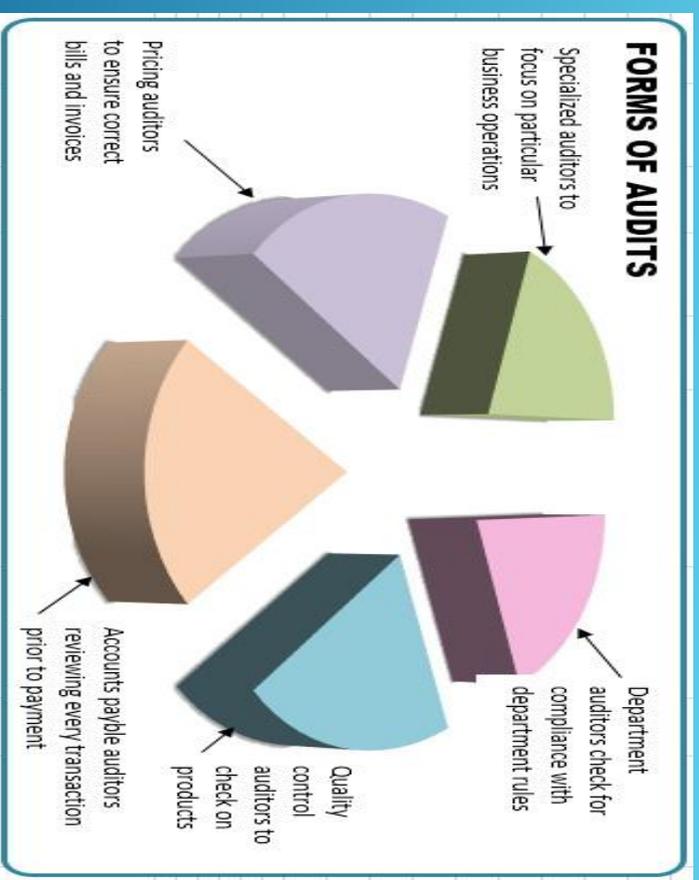
Initiative – self-starter

Flexibility – adapt to new challenges

Communicate – convey message

FORMS OF INTERNAL AUDITS

- ▶ Internal auditors to check for compliance with department rules and regulations
- ▶ Quality control auditors to check on products
- ▶ Accounts payable auditors reviewing every transaction prior to payment
- ▶ Pricing auditors to ensure correct bills and invoices
- ▶ Specialized auditors to focus on particular business operations



AUDIT DUTIES

Duty

Examine documents

Ask questions from ICQ

Interview auditees

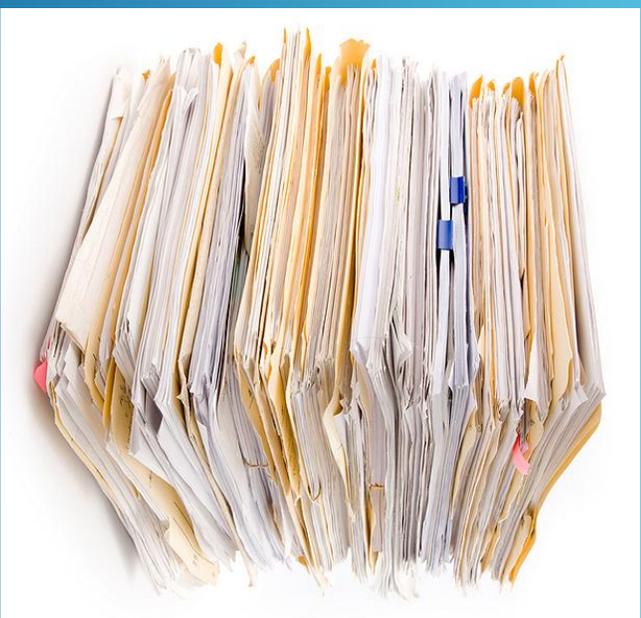
Analyze data

Organize working papers

Write observations & findings

Conduct entrance & exit conferences

DOCUMENT YOUR STEPS



WORKPAPERS

WHAT CAN GO WRONG?

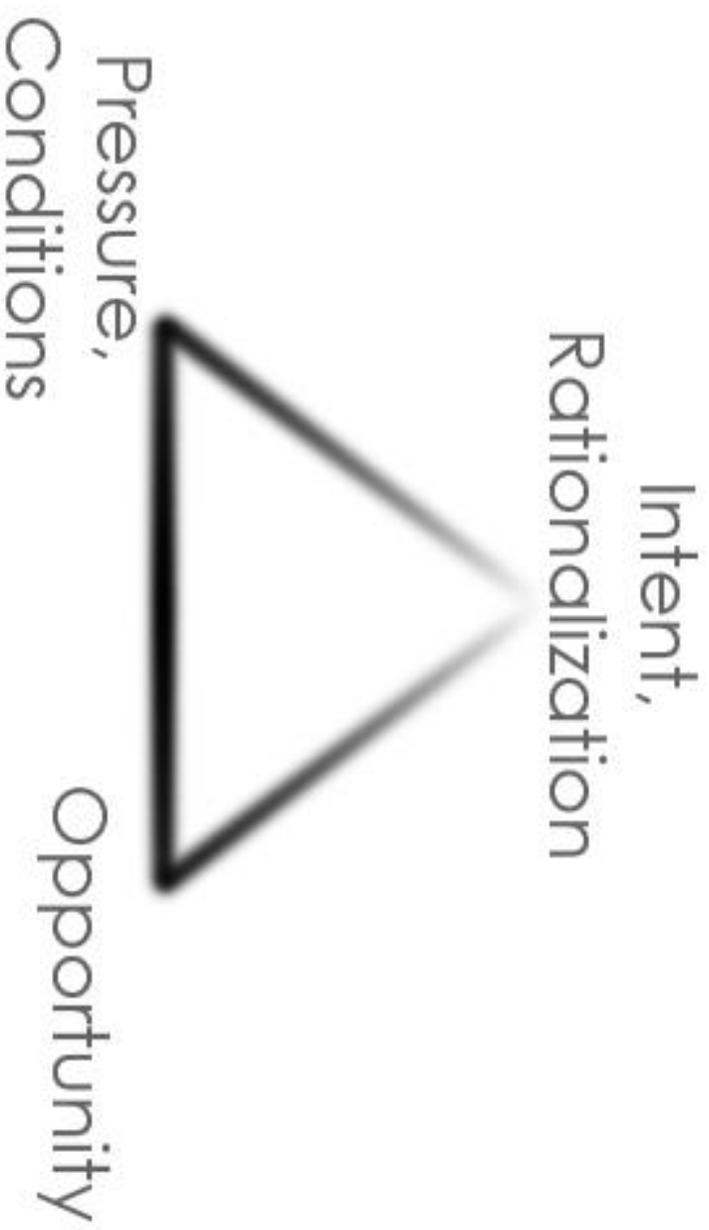




RED FLAGS



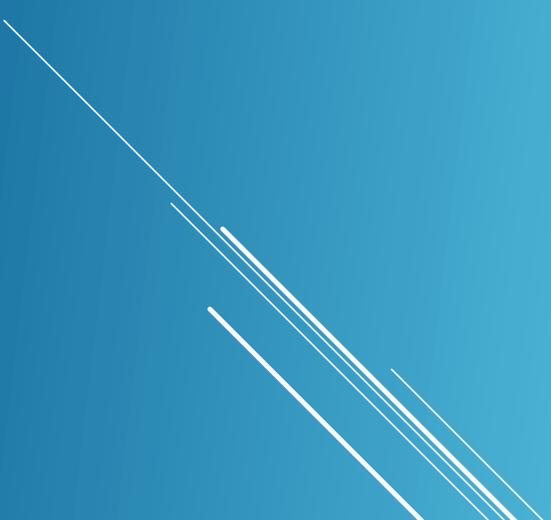
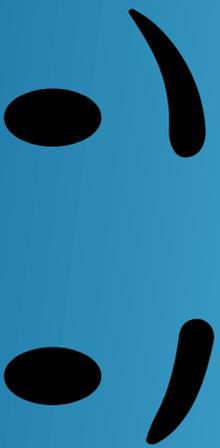
ELEMENTS OF FRAUD



Errors



Irregularity



Deceit, trickery, intentional actions

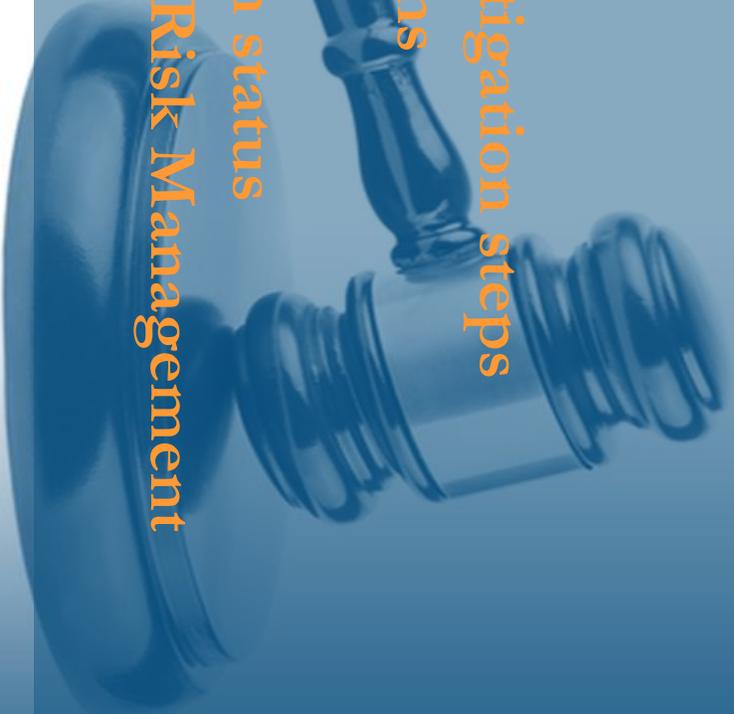


POLICY DIF – FRAUD

Gwinnett County Public Schools

II. Responsibilities

Reporting suspected fraud for proper investigation and disposition should be the responsibility of all district employees. Fraud is defined as the intentional deception, misappropriation of resources or the manipulation of data to the advantage or disadvantage of a person or entity. Management, defined as individuals who possess any degree of administrative or supervisory authority, should be responsible for the detection and prevention of fraud, misappropriations, and other irregularities. Each member of the district's management team should be familiar with the types of irregularities that might occur within his or her area of responsibility, and be alert for any indication of fraud. Any fraud that is detected or suspected should be reported immediately to the Director of Internal Audit for Gwinnett County Public Schools, who coordinates all investigations with appropriate district management and other appropriate authorities, both internal and external.

- 
- Secure the records
 - Make copies of the records
 - Be accessible to law enforcement
 - Prepare to explain audit/investigation steps
 - Clarify points / answer questions
 - Prepare for court proceedings
 - Update management periodically on status
 - Follow up with Human Resources, Risk Management and others

Notification of occurrence(s)

Suspicion of wrongdoing – notice is received from:

- A hotline tip
- A tip from someone familiar with operations
- A colleague
- A senior official
- Outside the organization

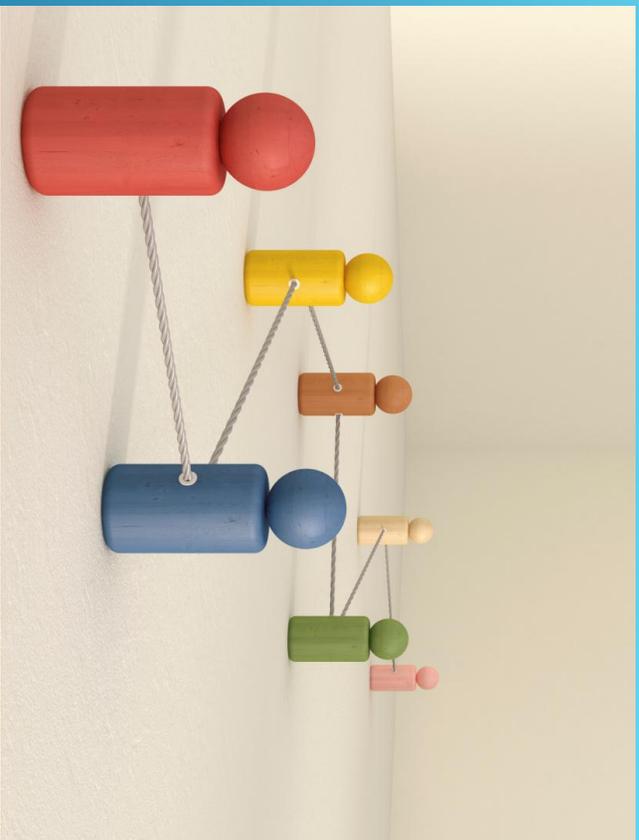


Deployment

A team of auditors/investigators is assembled to brainstorm/plan the needed steps for the investigation.

Assessment is made during this step to determine if a formal investigation is warranted.





FIELDWORK PHASE



Field Work Phase

Initial coordination should be made with senior officials that an investigation has begun.

This phase involves assigning staff various tasks including teams to:

- conduct interviews
- gather evidence
- perform necessary fact-finding steps
- secure documents and equipment

Important note: if the organization has a public information office/function, they should be notified and can handle any inquiries from media, etc. to caution not to divulge information prematurely about the process.



Field Work Phase

- Secure all necessary support documents
- Secure any equipment as needed
- Secure location to restrict access if necessary
- Observe condition of damage (if necessary)
- Observe key areas of access and note deficiencies
- Identify key persons for interviews and conduct interviews
- Note other areas and conduct reviews

Field Work Phase

REVIEW /
EXAMINE and
ANALYZE

- Recorders,
- Security cameras,
- Computer files
- Documents
- Other relevant information



Field Work Phase

- Conduct tests for accuracy on documents
- Conduct reasonableness tests
- Sort documents to determine if there are missing segments



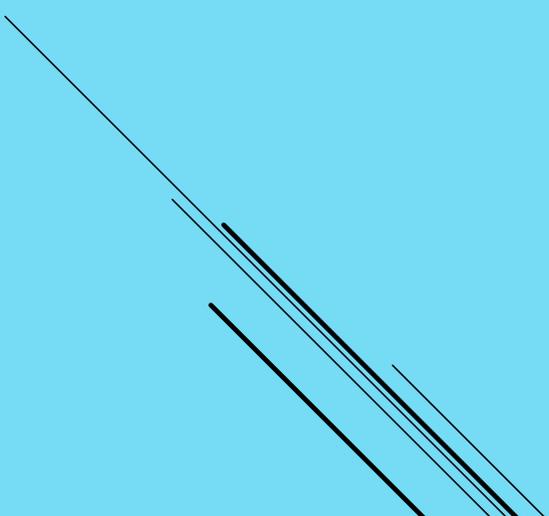
EXAMINATION AND ANALYSIS PHASE

- ✓ Review and test transactions and related materials for accuracy
- ✓ Analyze to determine if there is a clear sequence of events that led to wrongdoing
- ✓ Look into relevant data to reconstruct events or patterns
- ✓ Review interviews for corroboration of facts
- ✓ Collaborate with legal officials/law enforcement when appropriate



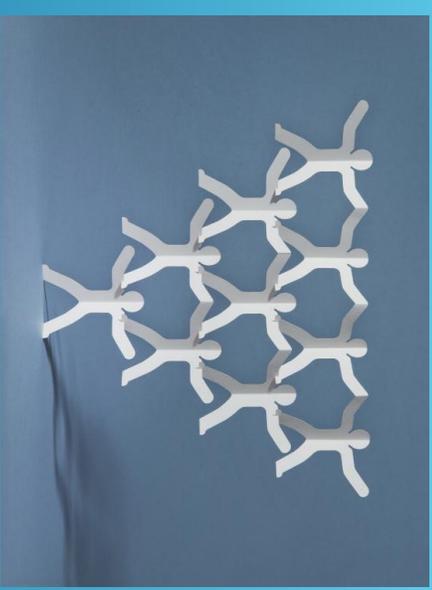


CONNECTIONS

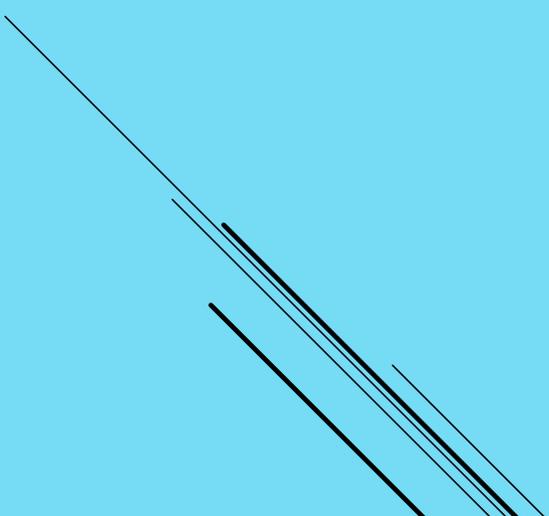


Connections

- Senior officials
- Mid level managers
- Public information office
- Human Resources
- Legal Department
- Internal Police



CASES



DAILY NEWS

BOOKKEEPER CHARGED WITH SCHOOL THEFT

\$24,576.25 loss



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RESUMTS:

- Sentenced to 10 years probation
- 3 months work release program
- 3 months electronic monitor/house arrest
- \$5,000 Restitution
- Court fees and fines

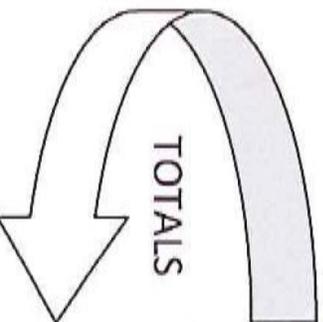


BOOKKEEPER ARRESTED FOR FELONY THEFT BY CONVERSION



Illustration of improper transaction handling:

| CASH \$ | CHECKS ✓ | Cumulative Total |
|----------------|--------------|------------------|
| ① \$1,000.00 | ① \$2,000.00 | ① \$3,000.00 |
| ③ (\$1,000.00) | ② \$1,000.00 | ③ \$3,000.00 |
| | | |
| TOTALS | \$3,000.00 | \$3,000.00 |



$$\begin{array}{l} \text{Actual Cash + Checks (①+②)} \\ \text{Received} = \$4,000.00 \end{array} \neq \$3,000.00$$

- ① = Transaction #1 in which \$1,000.00 in cash and \$2,000.00 in checks is received for a total of \$3,000.00 to be deposited in the bank.
- ② = Transaction #2 in which \$1,000.00 in checks is received and **NOT** posted into the accounting records, but submitted for deposit.
- ③ = Transaction #3 occurs concurrently with Transaction #2 in which the \$1,000.00 in checks substitutes for the cash (cash is then omitted from the transaction by not depositing it into the bank) and the amount of \$3,000.00 is deposited into the bank, thus creating a deficit of \$1,000.00 that should **ALSO** have been deposited into the bank.



| # | Deposit Date | Total Deposit | Currency Deposited | Checks Deposited | Currency Per RMC | Checks Per RMC | Difference in Cash Per RMC & Cash Deposited | Difference in Checks Per RMC & Checks Deposited |
|----|--------------|---------------|--------------------|------------------|------------------|----------------|---------------------------------------------|-------------------------------------------------|
| 1 | 8/6/2008 | \$20,919.00 | \$0.50 | \$20,918.50 | \$4,325.00 | \$16,594.00 | -\$4,324.50 | \$4,324.50 |
| 2 | 8/20/2008 | \$28,952.60 | \$3,212.18 | \$25,740.42 | \$6,428.75 | \$22,523.85 | -\$3,216.57 | \$3,216.57 |
| 3 | 8/25/2008 | \$7,059.96 | \$5,114.46 | \$1,945.50 | \$5,817.60 | \$1,242.36 | -\$703.14 | \$703.14 |
| 4 | 9/4/2008 | \$8,258.77 | \$5,556.42 | \$2,702.35 | \$5,940.89 | \$2,344.88 | -\$384.47 | \$357.47 |
| 5 | 9/10/2008 | \$8,128.67 | \$3,862.17 | \$4,266.50 | \$6,812.75 | \$1,740.92 | -\$2,950.58 | \$2,525.58 |
| 6 | 9/15/2008 | \$14,876.84 | \$11,600.84 | \$3,276.00 | \$12,679.15 | \$2,197.69 | -\$1,078.31 | \$1,078.31 |
| 7 | 9/18/2008 | \$22,605.85 | \$11,350.35 | \$11,255.50 | \$13,541.85 | \$9,064.00 | -\$2,191.50 | \$2,191.50 |
| 8 | 9/24/2008 | \$2,669.39 | \$802.39 | \$1,867.00 | \$1,990.89 | \$678.50 | -\$1,188.50 | \$1,188.50 |
| 9 | 10/1/2008 | \$8,074.55 | \$5,297.46 | \$2,777.09 | \$5,110.05 | \$3,008.50 | \$187.41 | -\$231.41 |
| 10 | 10/6/2008 | \$6,097.38 | \$4,896.38 | \$1,201.00 | \$5,047.88 | \$1,064.50 | -\$151.50 | \$136.50 |

Deposit for 8/6/2008

DEPOSIT TICKET
#640 MEADOWCREEK HIGH SCHOOL
 4455 STEVE REYNOLDS BOULEVARD
 NORCROSS, GA 30083

WAL-TELEVA

| DATE | CURRENCY | DOLLARS | CENTS |
|----------------------------|----------|---------|-------|
| 8-5-08 | | 14 | 00 |
| COIN | | | |
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| TOTAL FROM OTHER SIDE | | | |
| PLEASE RE-ENTER TOTAL HERE | | 20,918 | 00 |

DEPOSIT TICKET
#640 MEADOWCREEK HIGH SCHOOL
 4455 STEVE REYNOLDS BOULEVARD
 NORCROSS, GA 30083

WAL-TELEVA

| DATE | CURRENCY | DOLLARS | CENTS |
|----------------------------|----------|---------|-------|
| 8-5-08 | | 50 | 00 |
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| TOTAL FROM OTHER SIDE | | | |
| PLEASE RE-ENTER TOTAL HERE | | 50 | 00 |

NOTE: Deposit slips are dated Tuesday 8/5/2008 and cleared the bank on Wednesday 8/6/2008

Total deposit: \$20,919.00

Analysis of Deposit 8/6/2008

Headowcreek High School
 Analysis of Difference for Deposit of 8/6/08

| Checks that should not be here | | | | Checks that should be here | | | | Checks that were changed | | | |
|-------------------------------------------------|---------|-------------------|---------------|-----------------------------------------------------------------------------------------------|------|-------------------|---------------|--------------------------|------|-------------------|---------------|
| Date | # | Amount on receipt | Actual Amount | ACTUAL DEPOSIT DATE | # | Amount on receipt | Actual Amount | Date | # | Amount on receipt | Actual Amount |
| | 1145 | none | \$ 20.00 | 5/27/2008 | 579 | \$ 265.00 | \$ 265.00 | | 2739 | \$ 1,000.00 | \$ 2,515.00 |
| | 1110 | none | \$ 500.00 | 6/19/2008 | 1129 | \$ 300.00 | \$ 300.00 | | 93 | \$ 601.00 | \$ 605.00 |
| | 2876 | none | \$ 300.00 | 6/19/2008 | 249 | \$ 200.00 | \$ 200.00 | | 1248 | \$ 500.00 | \$ 841.00 |
| | 2131 | none | \$ 95.00 | 6/19/2008 | 2068 | \$ 225.00 | \$ 225.00 | | 1653 | \$ 1,437.00 | \$ 2,437.50 |
| | 294 | none | \$ 30.00 | 6/19/2008 | 1618 | \$ 200.00 | \$ 200.00 | | | \$ 3,538.00 | \$ 6,398.50 |
| | 90 | none | \$ 628.00 | | | | \$ 1,190.00 | | | | |
| | 90 | none | \$ 54.00 | | | | | | | | |
| | 949208 | none | \$ 200.00 | | | | | | | | |
| | 1317244 | none | \$ 1,000.00 | | | | | | | | |
| | 77620 | none | \$ 2.00 | | | | | | | | |
| | 2521 | none | \$ - | | | | | | | | |
| | | | \$ 2,829.00 | | | | | | | | |
| * = check made to A. Ham. No RMC found for this | | | | * = bank teller footer page; not a check transaction | | | | | | | |
| | | | | Because these checks were already deposited, they were not included in the final total below. | | | | | | | |
| | | | | These all appear on an RMC dated 7/1/2008 from Shondra Ingram-Beal | | | | | | | |
| | | | | These all appear on an RMC dated 8/5/2008 from Claire Boyce, the Community School Director. | | | | | | | |
| | | | | difference of amounts \$ 2,860.50 | | | | | | | |
| | | | | Cks that should not be here: \$ (2,829.00) | | | | | | | |
| | | | | Checks that were changed - net \$ 2,860.50 | | | | | | | |
| | | | | net difference \$ 31.50 | | | | | | | |

| # | Deposit Date | Total Deposit | Currency Deposited | Checks Deposited | Currency Per RMC | Checks Per RMC | Difference in Cash Per RMC & Cash Deposited | Difference in Checks Per RMC & Checks Deposited |
|----|--------------|---------------|--------------------|------------------|------------------|----------------|---------------------------------------------|-------------------------------------------------|
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| 2 | 8/20/2008 | \$28,952.60 | \$3,212.18 | \$25,740.42 | \$6,428.75 | \$22,523.85 | -\$3,216.57 | \$3,216.57 |
| 3 | 8/25/2008 | \$7,059.96 | \$5,114.46 | \$1,945.50 | \$5,817.60 | \$1,242.36 | -\$703.14 | \$703.14 |
| 13 | 10/27/2008 | \$9,021.75 | \$6.00 | \$9,015.75 | \$5,258.25 | \$3,908.50 | -\$5,252.25 | \$5,107.25 |
| 14 | 11/6/2008 | \$13,110.74 | \$2,155.50 | \$10,955.24 | \$3,652.50 | \$9,458.24 | -\$1,497.00 | \$1,497.00 |
| 15 | 11/10/2008 | \$11,458.16 | \$9.21 | \$11,448.95 | \$5,190.71 | \$6,207.45 | -\$5,181.50 | \$5,241.50 |
| 16 | 11/17/2008 | \$10,233.58 | \$3,856.34 | \$6,377.24 | \$2,557.58 | \$7,676.00 | \$1,298.76 | -\$1,298.76 |





Deposit for 11/6/2008



DEPOSIT TICKET
#640 MEADOWCREEK HIGH SCHOOL
 455 STEVE RENOULDS BOULEVARD
 NORCROSS, GA 30093

WALK THRU

| DATE | CURRENCY | DOLLARS | CENTS |
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| TOTAL FROM OTHER SIDE | | | |
| PLEASE RE-ENTER TOTAL HERE | | 10 | 955 24 |

AMOUNT DEPOSITED AND CURRENCY TYPE MUST BE IDENTICAL TO THE INFORMATION ON THE FRONT OF THE TICKET. TICKETS ARE NOT REVERSIBLE AND ARE VOID IF THE FRONT AND BACK DO NOT MATCH. TICKETS ARE VOID IF THE FRONT AND BACK DO NOT MATCH. TICKETS ARE VOID IF THE FRONT AND BACK DO NOT MATCH.

DEPOSIT TICKET
#640 MEADOWCREEK HIGH SCHOOL
 455 STEVE RENOULDS BOULEVARD
 NORCROSS, GA 30093

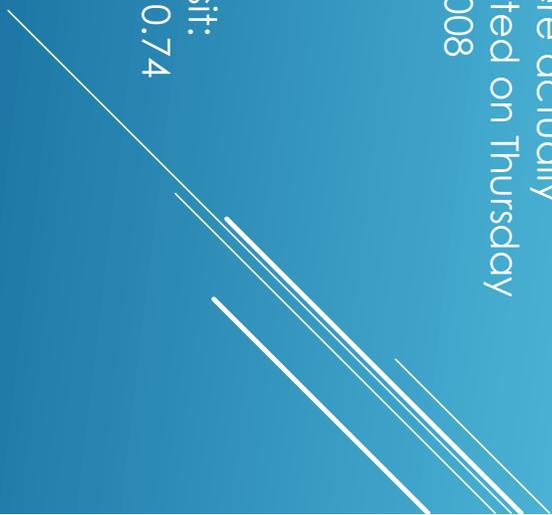
WALK THRU

| DATE | CURRENCY | DOLLARS | CENTS |
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| 11-31-08 | | 11 | 55 |
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AMOUNT DEPOSITED AND CURRENCY TYPE MUST BE IDENTICAL TO THE INFORMATION ON THE FRONT OF THE TICKET. TICKETS ARE NOT REVERSIBLE AND ARE VOID IF THE FRONT AND BACK DO NOT MATCH. TICKETS ARE VOID IF THE FRONT AND BACK DO NOT MATCH.

NOTE: The deposit slips are dated Friday 10/31/2008 but were actually deposited on Thursday 11/6/2008

Total deposit:
\$13,110.74



Analysis of Deposits for FY 2008-2009

| # | Deposit Date | Total Deposit | Currency Deposited | Checks Deposited | Currency Per RMC | Checks Per RMC | Difference In Cash per RMC & Cash Deposited | Difference In Checks Per RMC & Checks Deposited |
|--------|--------------|---------------|--------------------|------------------|------------------|----------------|---------------------------------------------|-------------------------------------------------|
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| 2 | 8/20/2008 | \$28,952.60 | \$3,212.18 | \$25,740.42 | \$6,428.75 | \$22,523.85 | -\$3,216.57 | \$3,216.57 |
| 3 | 8/25/2008 | \$7,059.96 | \$5,114.46 | \$1,945.50 | \$5,817.60 | \$1,242.36 | -\$703.14 | \$703.14 |
| 4 | 9/4/2008 | \$8,258.77 | \$5,556.42 | \$2,702.35 | \$5,940.89 | \$2,344.88 | -\$384.47 | \$357.47 |
| 5 | 9/10/2008 | \$8,128.67 | \$3,862.17 | \$4,266.50 | \$6,812.75 | \$1,740.92 | -\$2,950.58 | \$2,525.58 |
| 6 | 9/15/2008 | \$14,876.84 | \$11,600.84 | \$3,276.00 | \$12,679.15 | \$2,197.69 | -\$1,078.31 | \$1,078.31 |
| 7 | 9/18/2008 | \$22,605.85 | \$11,350.35 | \$11,255.50 | \$13,541.85 | \$9,064.00 | -\$2,191.50 | \$2,191.50 |
| 8 | 9/24/2008 | \$2,669.39 | \$802.39 | \$1,867.00 | \$1,990.89 | \$678.50 | -\$1,188.50 | \$1,188.50 |
| 9 | 10/1/2008 | \$8,074.55 | \$5,297.46 | \$2,777.09 | \$5,110.05 | \$3,008.50 | \$187.41 | -\$231.41 |
| 10 | 10/6/2008 | \$6,097.38 | \$4,896.38 | \$1,201.00 | \$5,047.88 | \$1,064.50 | -\$151.50 | \$136.50 |
| 11 | 10/16/2008 | \$18,080.98 | \$3,114.85 | \$14,966.13 | \$6,440.65 | \$11,640.33 | -\$3,325.80 | \$3,325.80 |
| 12 | 10/16/2008 | \$18,699.35 | \$10,409.35 | \$8,290.00 | \$13,015.35 | \$5,654.00 | -\$2,606.00 | \$2,636.00 |
| 13 | 10/27/2008 | \$9,021.75 | \$6.00 | \$9,015.75 | \$5,258.25 | \$3,908.50 | -\$5,252.25 | \$5,107.25 |
| 14 | 11/6/2008 | \$13,110.74 | \$2,155.50 | \$10,955.24 | \$3,652.50 | \$9,458.24 | -\$1,497.00 | \$1,497.00 |
| 15 | 11/10/2008 | \$11,458.16 | \$9.21 | \$11,448.95 | \$5,190.71 | \$6,207.45 | -\$5,181.50 | \$5,241.50 |
| 16 | 11/17/2008 | \$10,233.58 | \$3,856.34 | \$6,377.24 | \$2,557.58 | \$7,676.00 | -\$1,298.76 | -\$1,298.76 |
| 17 | 11/24/2008 | \$10,900.01 | \$312.23 | \$10,587.78 | \$4,120.75 | \$6,580.51 | -\$4,007.27 | \$4,007.27 |
| 18 | 12/3/2008 | \$6,138.75 | \$4,755.25 | \$1,383.50 | \$4,120.75 | \$2,018.00 | \$634.50 | -\$634.50 |
| 19 | 12/10/2008 | \$10,703.53 | \$1,057.78 | \$9,645.75 | \$4,261.58 | \$6,442.00 | -\$3,203.80 | \$3,203.75 |
| 20 | 12/17/2008 | \$7,581.20 | \$4,099.20 | \$3,482.00 | \$4,456.20 | \$3,125.00 | -\$357.00 | \$357.00 |
| 21 | 1/7/2009 | \$2,442.37 | \$46.12 | \$2,396.25 | \$1,792.37 | \$650.00 | -\$1,746.25 | \$1,746.25 |
| 22 | 1/14/2009 | \$5,180.75 | \$2,076.00 | \$3,104.75 | \$3,947.75 | \$1,233.00 | -\$1,871.75 | \$1,871.75 |
| 23 | 1/26/2009 | \$11,189.99 | \$4,138.24 | \$7,051.75 | \$5,644.99 | \$5,545.00 | -\$1,506.75 | \$1,506.75 |
| 24 | 1/28/2009 | \$8,580.75 | \$1,669.75 | \$6,911.00 | \$1,988.75 | \$6,592.00 | -\$319.00 | \$319.00 |
| 25 | 2/2/2009 | \$6,993.99 | \$2,976.00 | \$4,017.99 | \$4,199.00 | \$2,794.99 | -\$1,223.00 | \$1,223.00 |
| 26 | 2/4/2009 | \$14,436.95 | \$6,366.95 | \$8,070.00 | \$8,503.95 | \$5,933.00 | -\$2,137.00 | \$2,137.00 |
| 27 | 2/11/2009 | \$18,785.11 | \$7,605.11 | \$11,180.00 | \$8,833.11 | \$9,952.00 | -\$1,228.00 | \$1,228.00 |
| 28 | 2/17/2009 | \$16,007.83 | \$5,941.52 | \$10,066.31 | \$8,438.83 | \$7,569.00 | -\$2,497.31 | \$2,497.31 |
| 29 | 2/23/2009 | \$23,147.37 | \$14,133.37 | \$9,014.00 | \$16,708.37 | \$6,439.00 | -\$2,575.00 | \$2,575.00 |
| 30 | 3/4/2009 | \$15,590.40 | \$2,891.65 | \$12,698.75 | \$6,928.40 | \$8,662.00 | -\$4,036.75 | \$4,036.75 |
| 31 | 3/9/2009 | \$9,472.67 | \$3,062.66 | \$6,410.01 | \$4,366.67 | \$5,106.00 | -\$1,304.01 | \$1,304.01 |
| 32 | 3/16/2009 | \$8,174.75 | \$3,321.75 | \$4,853.00 | \$4,252.75 | \$3,922.00 | -\$931.00 | \$931.00 |
| 33 | 3/26/2009 | \$13,110.25 | \$2,371.46 | \$10,738.79 | \$7,519.46 | \$5,590.79 | -\$5,148.00 | \$5,148.00 |
| 34 | 4/6/2009 | \$5,867.00 | \$2,082.85 | \$3,784.15 | \$3,055.35 | \$2,811.65 | -\$972.50 | \$972.50 |
| 35 | 4/20/2009 | \$17,009.10 | \$1,136.44 | \$15,872.66 | \$6,049.10 | \$11,032.50 | -\$4,912.66 | \$4,840.66 |
| 36 | 4/29/2009 | \$10,139.64 | \$4,413.29 | \$5,726.35 | \$6,362.29 | \$3,867.35 | -\$1,949.99 | \$1,859.99 |
| 37 | 5/6/2009 | \$14,658.48 | \$6,426.12 | \$8,232.36 | \$10,175.98 | \$4,482.50 | -\$3,749.86 | \$3,749.86 |
| 38 | 5/26/2009 | \$18,207.03 | \$5,868.76 | \$12,338.27 | \$9,171.15 | \$9,035.88 | -\$3,302.39 | \$3,302.39 |
| 39 | 6/3/2009 | \$9,812.75 | \$1,708.05 | \$8,104.70 | \$3,516.53 | \$6,296.22 | -\$1,808.48 | \$1,808.48 |
| 40 | 6/15/2009 | \$8,751.50 | \$0.00 | \$8,751.50 | \$0.00 | \$8,751.50 | \$0.00 | \$0.00 |
| 41 | 6/24/2009 | \$2,705.48 | \$95.00 | \$2,610.48 | \$0.00 | \$2,705.48 | \$95.00 | -\$95.00 |
| 42 | 6/24/2009 | \$1,125.00 | \$0.00 | \$1,125.00 | \$10.00 | \$1,160.00 | -\$30.00 | -\$35.00 |
| TOTALS | | \$484,960.22 | \$159,799.95 | \$325,160.27 | \$242,432.68 | \$243,300.59 | -\$82,632.73 | \$81,859.68 |

RMC = Report of Monies Collected

NET: \$(773.05)

Analysis of Deposits for FY July 1, 2009 – January 6, 2010

| # | Deposit Date | Total Deposit | Currency Deposited | Checks Deposited | Currency Per RMC | Checks Per RMC | Difference in Cash Per RMC & Cash Deposited | Difference in Checks Per RMC & Checks Deposited |
|----|--------------|---------------|--------------------|------------------|------------------|----------------|---------------------------------------------|-------------------------------------------------|
| 1 | 8/6/2009 | \$500.00 | \$0.00 | \$500.00 | \$0.00 | \$500.00 | \$0.00 | \$0.00 |
| 2 | 8/12/2009 | \$9,200.00 | \$0.00 | \$9,200.00 | \$0.00 | \$9,200.00 | \$0.00 | \$0.00 |
| 3 | 8/17/2009 | \$22,282.39 | \$0.00 | \$22,282.39 | \$11,657.59 | \$16,028.69 | -\$11,657.59 | \$6,253.70 |
| 4 | 8/24/2009 | \$9,973.21 | \$2,072.15 | \$7,901.06 | \$8,558.15 | \$1,539.06 | -\$6,486.00 | \$6,362.00 |
| 5 | 8/26/2009 | \$10,580.09 | \$4,392.21 | \$6,187.88 | \$5,781.71 | \$4,639.88 | -\$1,389.50 | \$1,548.00 |
| 6 | 9/8/2009 | \$11,137.76 | \$4,832.11 | \$6,305.65 | \$7,871.71 | \$3,036.05 | -\$3,039.60 | \$3,269.60 |
| 7 | 9/16/2009 | \$15,989.77 | \$5,380.54 | \$10,609.23 | \$8,993.76 | \$6,866.26 | -\$3,613.22 | \$3,742.97 |
| 8 | 9/17/2009 | \$5,824.00 | \$5,824.00 | \$0.00 | \$1,036.00 | \$4,788.00 | \$4,788.00 | -\$4,788.00 |
| 9 | 9/21/2009 | \$4,756.55 | \$739.50 | \$4,017.05 | \$3,629.50 | \$1,102.05 | -\$2,890.00 | \$2,915.00 |
| 10 | 10/5/2009 | \$8,981.94 | \$7,001.45 | \$1,980.49 | \$8,375.45 | \$606.49 | -\$1,374.00 | \$1,374.00 |
| 11 | 10/14/2009 | \$22,899.04 | \$13,666.52 | \$9,232.52 | \$13,017.91 | \$9,887.79 | \$648.61 | -\$655.27 |
| 12 | 10/22/2009 | \$387.00 | \$319.00 | \$68.00 | \$319.00 | \$68.00 | \$0.00 | \$0.00 |
| 13 | 10/26/2009 | \$20,421.39 | \$108.13 | \$20,313.26 | \$6,315.17 | \$14,106.22 | -\$6,207.04 | \$6,207.04 |
| 14 | 10/26/2009 | \$5,589.50 | \$1,051.00 | \$4,538.50 | \$1,954.85 | \$3,635.00 | -\$903.85 | \$903.50 |
| 15 | 11/2/2009 | \$3,296.55 | \$861.93 | \$2,434.62 | \$2,555.55 | \$741.00 | -\$1,693.62 | \$1,693.62 |
| 16 | 11/4/2009 | \$1,075.00 | \$74.95 | \$1,000.05 | \$637.30 | \$437.70 | -\$562.35 | \$562.35 |
| 17 | 11/16/2009 | \$13,903.24 | \$3,973.01 | \$9,930.23 | \$7,973.00 | \$7,240.73 | -\$3,999.99 | \$2,689.50 |
| 18 | 11/19/2009 | \$11,580.51 | \$4.66 | \$11,575.85 | \$4,060.51 | \$7,515.00 | -\$4,055.85 | \$4,060.85 |
| 19 | 12/2/2009 | \$10,749.87 | \$4,758.00 | \$5,991.87 | \$7,670.67 | \$3,078.20 | -\$2,912.67 | \$2,913.67 |
| 20 | 12/9/2009 | \$6,516.65 | \$4,189.65 | \$2,327.00 | \$4,389.65 | \$2,127.00 | -\$200.00 | \$200.00 |
| 21 | 12/10/2009 | \$2,468.93 | \$1,036.00 | \$1,432.93 | \$978.00 | \$1,422.93 | \$58.00 | \$10.00 |
| 22 | 12/16/2009 | \$681.00 | \$230.15 | \$450.85 | \$541.00 | \$140.00 | -\$310.85 | \$310.85 |
| 23 | 12/17/2009 | \$7,949.85 | \$2,418.84 | \$5,531.01 | \$4,668.85 | \$3,407.00 | -\$2,250.01 | \$2,124.01 |
| 24 | 1/6/2010 | \$5,814.58 | \$47.55 | \$5,767.03 | \$773.51 | \$5,041.07 | -\$725.96 | \$725.96 |
| | TOTALS | \$212,558.82 | \$62,981.35 | \$149,577.47 | \$111,758.84 | \$107,154.12 | -\$48,777.49 | \$42,423.35 |

Deposit labeled #1 above was NOT recorded in the accounting records for either fiscal year, but the deposit was made as evidenced with bank records. Due to the actual date of the deposit, it was included in calculations for FY 2009-2010

Deposits labeled #3 above was actually labeled #2 in the accounting records. Deposit #3 was omitted. Deposits #4 through #24 are properly numbered.

NET: \$(6,354.14)

RMC = Report of Monies Collected

Detailed analysis shows:

- The net differences of just the currency deposited = total potential \$\$\$ loss
- Concealing loss with substitution (lapping) of checks for cash
- Checks that perhaps were cashed
- Checks from personal sources inserted for deposit
- Timing differences of deposits vs. supporting documentation
- Manipulating (falsifying) supporting documentation → changing check amounts
- Continued pattern of irregularities vs. isolated instance of error





EXCERPT: Special Investigation Report 0640-02-10

November 19, 2010

In-depth audit procedures revealed that the increase in checks appeared to be improperly managed through a combination of the following:

- Failure to record all received checks on RMCs,
- Manipulating the timing in which checks were submitted for deposit in the bank by sending some checks in for deposit when received, but later including the correlating RMCs in deposits that reported those checks, and
- Recording different check amounts on RMCs rather than the actual amount of the checks.

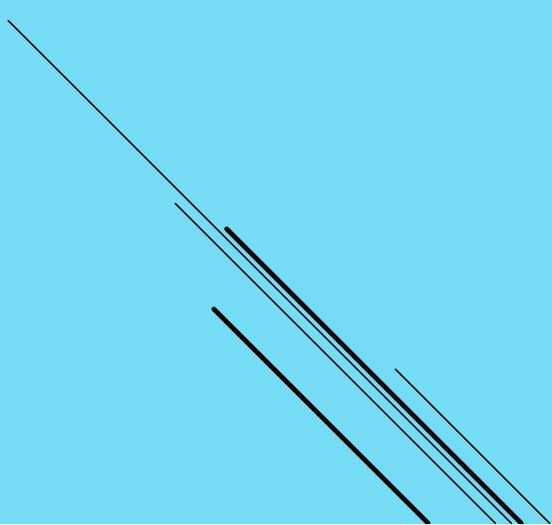
RESULTS:

- Sentenced to 20 years probation
- 36 months house arrest
- \$90,000 Restitution
- Court fees and fines





NEXT STEPS



REPORT PHASE



- Draft a report
- Review the report with appropriate officials
- Comments – send to appropriate persons to review
- Finalize report and release.

CONCLUSIONS





Thank You

Please contact me if you need additional information:

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