

# **Fraud Prevention Uniform Guidance Update Hot Topics September 21, 2018**

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# Definition of Fraud

- 🌀 “Intentional perversion of truth in order to induce another to part with something of value or to surrender legal right.” (Mirriam-Webster’s online dictionary)
- 🌀 Association of Certified Fraud Examiners (ACFE)
  - Misrepresentation of material facts
  - Concealment of material facts
  - Bribery
  - Conflicts of Interest
  - Theft of money and property
  - Breach of Fiduciary Duty



# Fraud Statistics

## 2018 Report to the Nations – ACFE


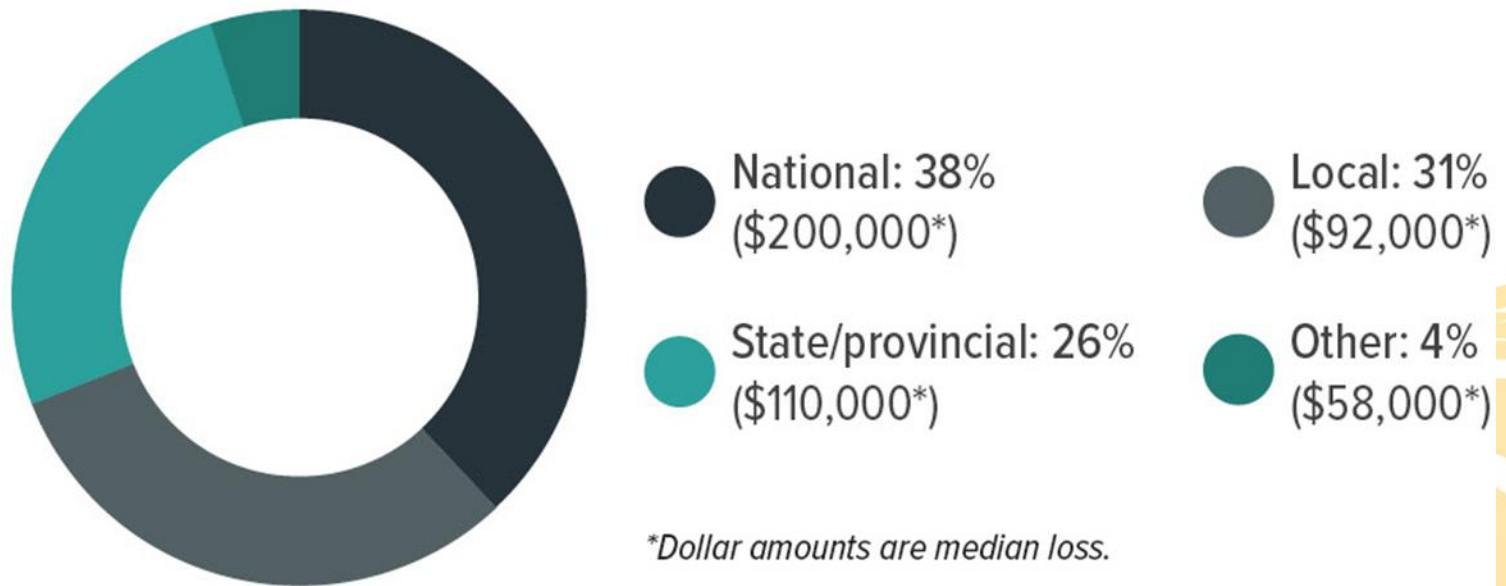
- \$7 billion in total losses due to fraud between January 2016 and October 2017
  - Governments account for 16% of all cases
  - Median loss of \$118,000
- 

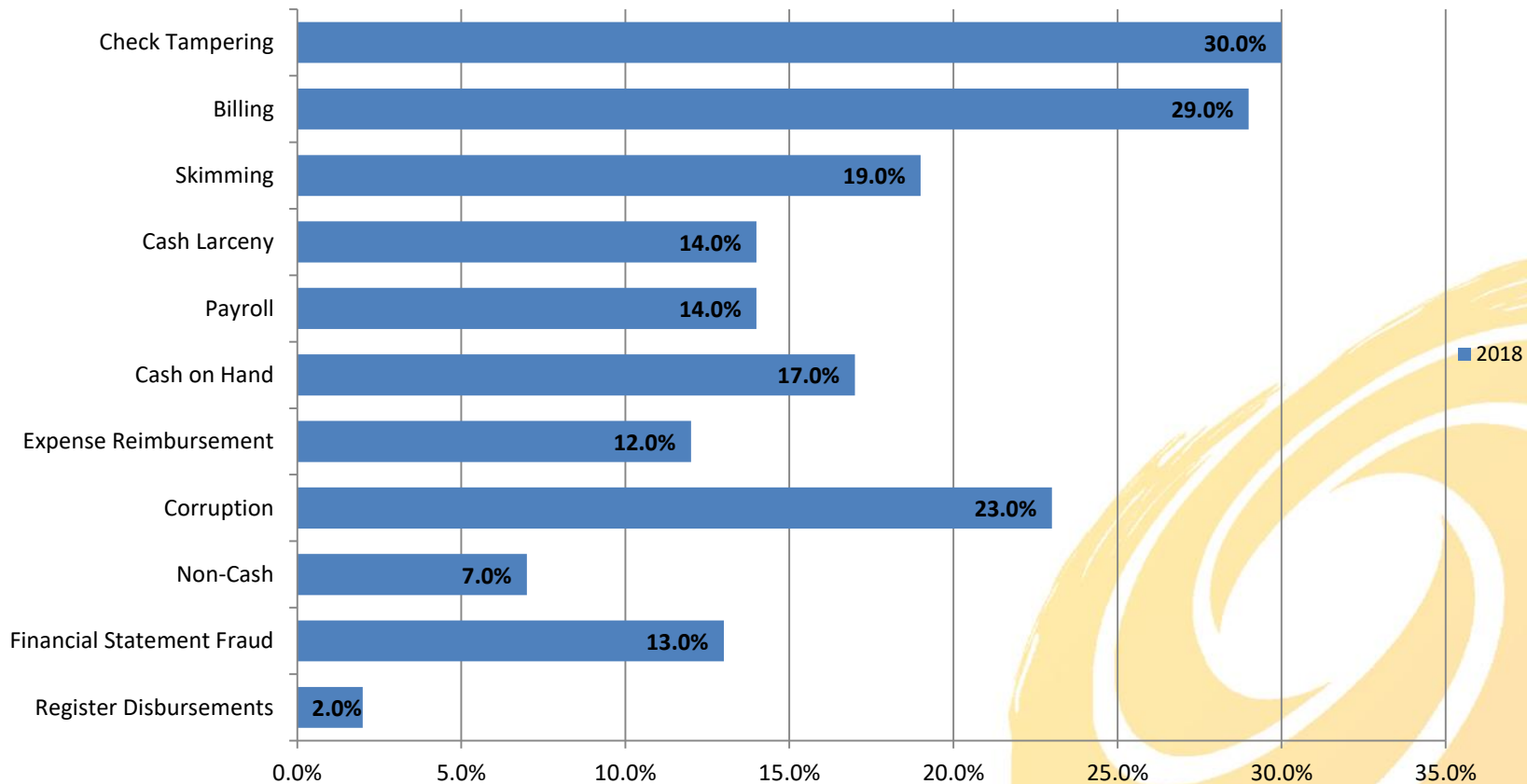
FIG. 13 What levels of government are victimized by occupational fraud?



Source: ACFE 2018 Report to the Nations on Occupational Fraud and Abuse

# Schemes from Perpetrators working in Accounting Department

## Accounting

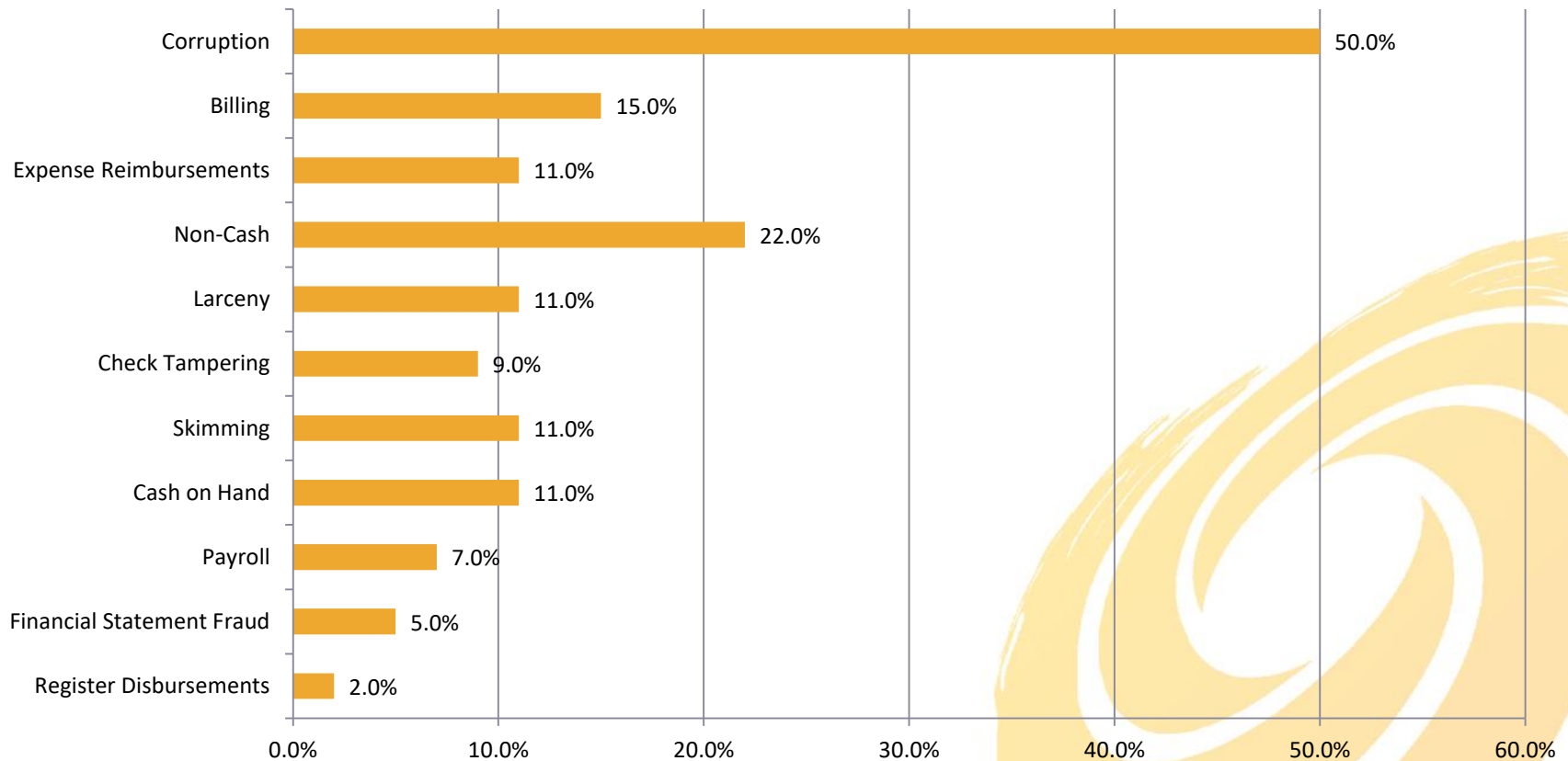


Source: ACFE 2018 Report to the Nations on Occupational Fraud and Abuse

# Types of cases at risk

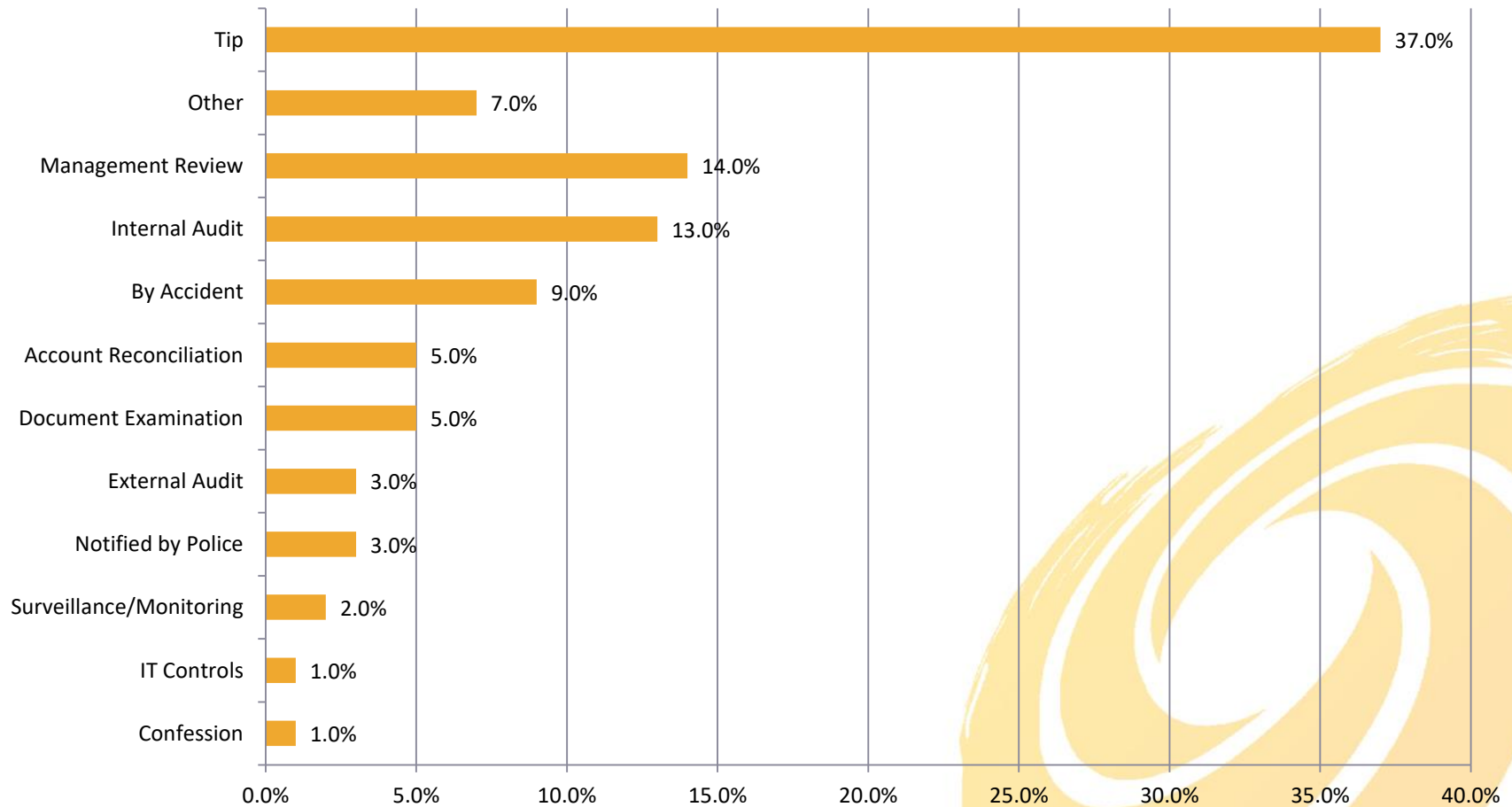
## Government and Public Administration

% of Cases



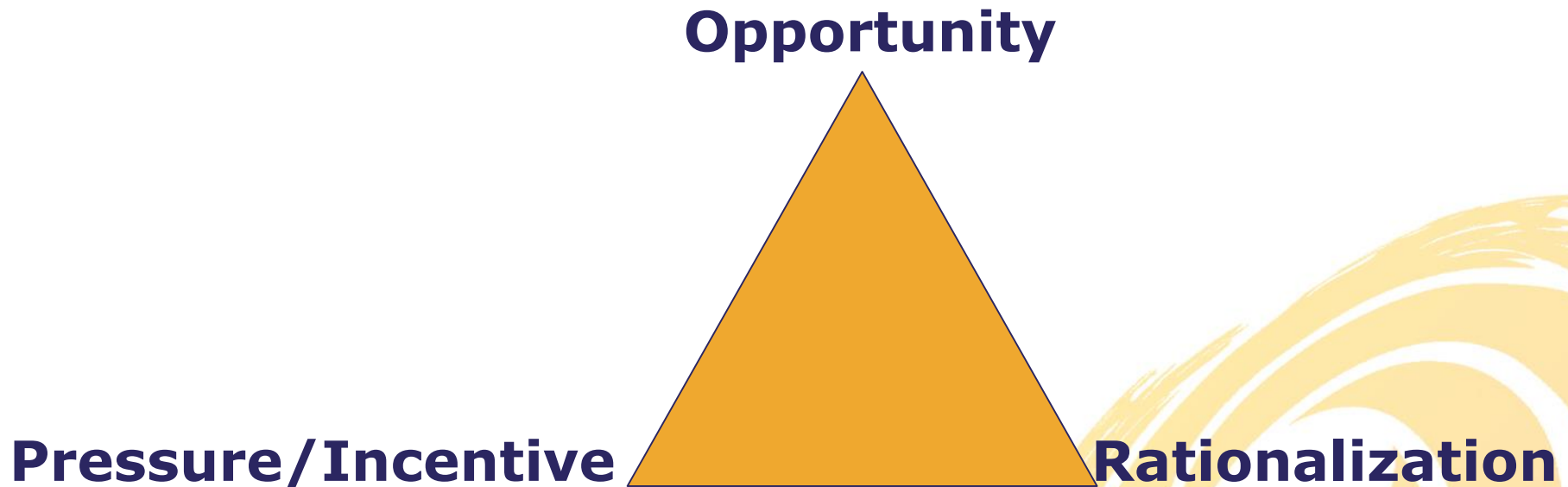
Source: ACFE 2018 Report to the Nations on Occupational Fraud and Abuse

# Detection in US



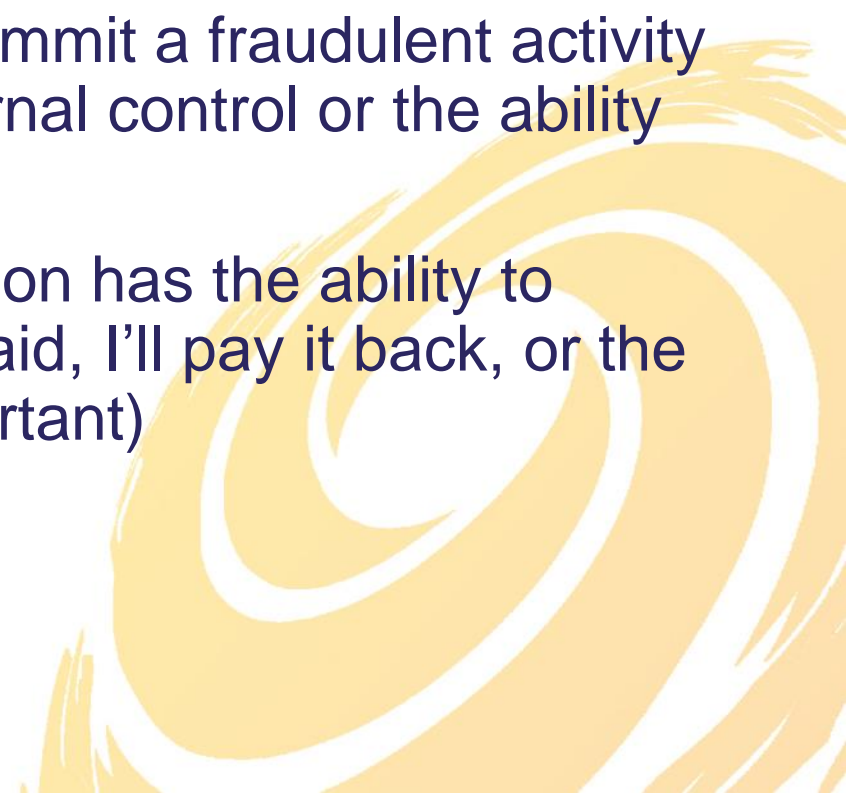
Source: ACFE 2018 Report to the Nations on Occupational Fraud and Abuse

**Cressey's Fraud Triangle – Concept that dates back over half a century. Generally for fraud to occur, three things must be present:**





# Fraud Triangle

- 🌀 **Pressure** – Financial need that is often unwilling to be shared (addictions, debt, etc.) or that emotions have impacted the person (sick child or “keeping up with the Joneses”)
  - 🌀 **Opportunity** – The ability to commit a fraudulent activity must exist (weaknesses in internal control or the ability to override them)
  - 🌀 **Rationalization** – When a person has the ability to justify their actions (I’m underpaid, I’ll pay it back, or the health of my child is more important)
- 

# Fraud Risk Areas

- 🌀 Skimming of Cash Collections
  - 🌀 Missing Evidence
  - 🌀 IT Equipment and Purchases
  - 🌀 Off-the Books Bank Accounts
  - 🌀 Visit the AOS website for numerous stories and findings
- 
- A large, stylized yellow swirl graphic is located in the bottom right corner of the slide, partially overlapping the text of the last list item. It consists of several concentric, hand-painted style loops.

# What is Fraud Risk Assessment?

- 🌀 Proactive approach to mitigating fraud in your organization
- 🌀 Analyzing where fraud can occur in your organization
- 🌀 Fraud Prevention vs. Fraud Detection
  - Prevention = Proactive
  - Detection = Reactive



# Who is Responsible for Risk Assessment

- ☪ Governing Body

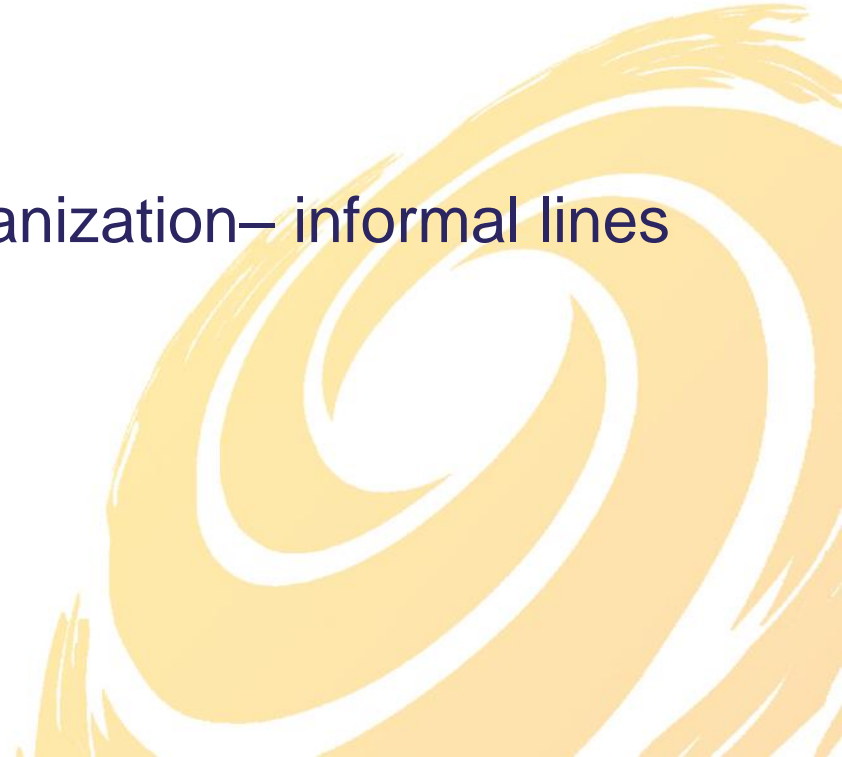
  - Audit or Finance Committee

- ☪ Administrator/Superintendent

- ☪ Finance Director/Treasurer

- ☪ Executive Staff

- ☪ Everyone throughout the Organization— informal lines of communication



# Risk Assessment Includes:

- 🌀 Risk Identification
- 🌀 Risk Likelihood
- 🌀 Significance Assessment
- 🌀 Risk Response



# Risk Identification

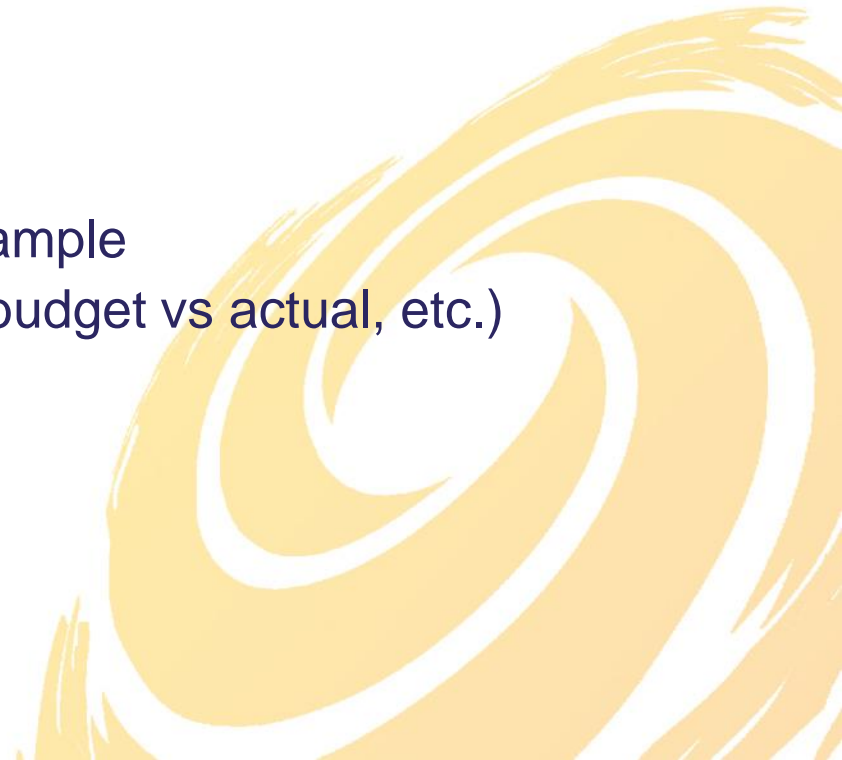
## Risk Identification

→ Gathering information from both internal and external sources

- **Brainstorming**
- Interviews
- Outside training
- Analytical Procedures
  - Trend analysis: vendor example
  - Monthly financial reports (budget vs actual, etc.)

→ Where are the inherent risks?

- Cash collection points
- Lack of oversight



# Risk Identification cont.

## Risk Identification

### → Incentives/Pressures

- Budget constraints
- Performance Bonuses

### → Opportunities

- Cash collection points
- Segregated accounts
- Access to create vendors



# Risk Likelihood

## Risk Likelihood

- Financial exposure
- Public opinion
- Designed controls vs. Inherent risks
  - Is there a gap?





# Risk Response

## Consider cost-benefit

- Cost of Inaction

## How will Board/management respond

- Increased Training

- Surprise Audits

- Change in Policy and Procedure



# Behavioral Red Flags

| Behavioral Red Flag                              | Percent of Cases |
|--|------------------|
| Living beyond means                              | 41%              |
| Financial Difficulties                           | 29%              |
| Unusually close association with vendor/customer | 20%              |
| Control Issues, Unwillingness to Share Duties    | 15%              |
| Divorce/Family Problems                          | 14%              |
| Wheeler-Dealer Attitude                          | 13%              |
| Irritability, Suspiciousness or Defensiveness    | 12%              |

# Behavioral Red Flags

| Behavioral Red Flag                    | Percent of Cases |
|--|------------------|
| Addiction problems                     | 10%              |
| Complaining about inadequate pay       | 9%               |
| Excessive pressure from within company | 7%               |
| Social Isolation                       | 7%               |
| Past employment-related problems       | 6%               |
| Past Legal Problems                    | 6%               |

# Billing Schemes

- False invoicing through a shell company
- Personal purchases with government funds
- False invoicing through an established vendor



# False Invoicing

🌀 Fake invoice – no service or product exchange

🌀 [www.customreceipt.com](http://www.customreceipt.com)



# Fake invoices many times lack information

- ☪ Street address – PO box only
- ☪ Phone number
- ☪ Good description
- ☪ Logo
- ☪ Packing slip for products purchased
- ☪ Shipping destination for products
- ☪ Invoice numbers are sequential



# Vendor Files

## Controls over vendor files

- Is there a policy in place over access/editing to vendor master list?
- Who is authorized to set up new vendors in USAS?
- Who is authorized to make changes to existing vendors in USAS?
- Require authorization forms that must be approved by Treasurer
- Search existing vendor files prior to setting up new requests
- Review vendor files regularly
  - Inactivate after a specified period of no payments
  - Review files for missing details (no address, only PO Box, etc)

# Employee Expense Reimbursements – What to look for:

- ☪ Lack of invoice
- ☪ Fake invoices
- ☪ Lack of detail on invoices
- ☪ Wrong mileage
- ☪ False mileage
- ☪ Personal expenses
- ☪ Alcohol





# External Risks

- 🌀 Internet Merchandise Schemes
  - Flash Advertising, spoofing of payment sites
- 🌀 Fake Government Officials
  - IRS
- 🌀 Phishing schemes; more sophisticated
  - Fueled by data breaches (Equifax, Uber)
  - W2 and Wire Scams



# Effective Fraud Deterrents

## Written Fraud Policy

- Policy sets expectations
  - Zero Tolerance
- Review and sign-off by each employee for personnel file
- Include Reporting Process
  - Whistleblower Protection
  - Issues addressed consistently and timely

## Ethics Policy, Conflict of Interest Policy

## Training

## Continuous Risk Assessment



# Internal Controls - Examples

## Disbursements

- Written approval of authorization to purchase
- Review of account coding by knowledgeable employee
- Written receipt of goods/services (okay to pay)
  - Segregation of duties

## Payroll

- Process for hiring/termination of employees
- Review of account coding by knowledgeable employee
- Approval of timecards
- Approval of pay rates

# Internal Controls - Examples

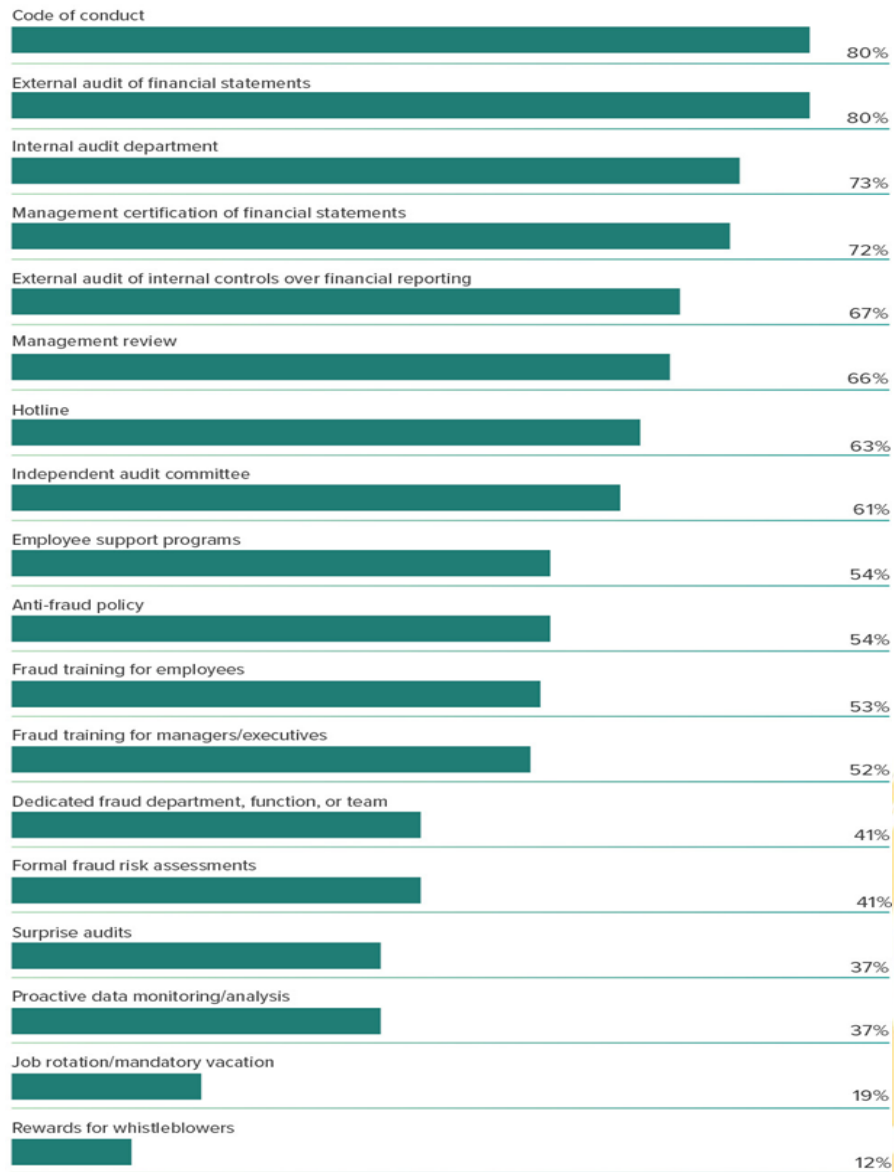
## Receipts

- Finance office receiving adequate support
- Segregation of duties
- Trend analysis

## Manual Journal Entries (Memo/Correcting Entries)

- Segregation of duties
- Formal approval by management
  - Treasurer, Council/Board

FIG. 17 What anti-fraud controls are most common?



# Steps to Reduce Fraud Risk

- 🌀 Fraud risk analysis performed
  - 🌀 Educate
  - 🌀 Tone at the Top
  - 🌀 Conflict Disclosures (Board of Education and Management)
  - 🌀 Establish whistle-blower hotlines
  - 🌀 Rotation of job duties
  - 🌀 Zero tolerance
  - 🌀 Background checks for new hires – don't hire crooks
  - 🌀 Keep eyes and ears open regarding employee behavior
  - 🌀 Discuss concerns with auditors
  - 🌀 Establish effective Internal Audit division
  - 🌀 Use of Data Mining Software
  - 🌀 Surprise audits
- 

# Recent Case - IT Equipment


🌀 Former IT Technician – theft of Apple products

🌀 Theft Included:

- 85 iPhones
- 21 laptops
- 11 iPads
- 6 other Apple Products



# IT Equipment (continued)

- Buying items at discounted rates through cell provider—often when employees were eligible for upgrades but declined them
  - Majority of items purchased were then sold on Ebay – in all he made a profit of \$45,138
  - Theft uncovered by his replacement after logging into accounts and becoming suspicious of activity who then notified his supervisor
- 



# IT Equipment (continued)

🌀 Things to consider that may have prevent/detected sooner:

- Add'l outside monitoring of accounts – cell phones, store credit, amazon
- Packing slips – have all equipment delivered to the school, tagged and tracked
- User acknowledgment of receipt of upgraded phone – signed by employee
- Segregation of duties in requisition – purchase process

# Uniform Guidance Update



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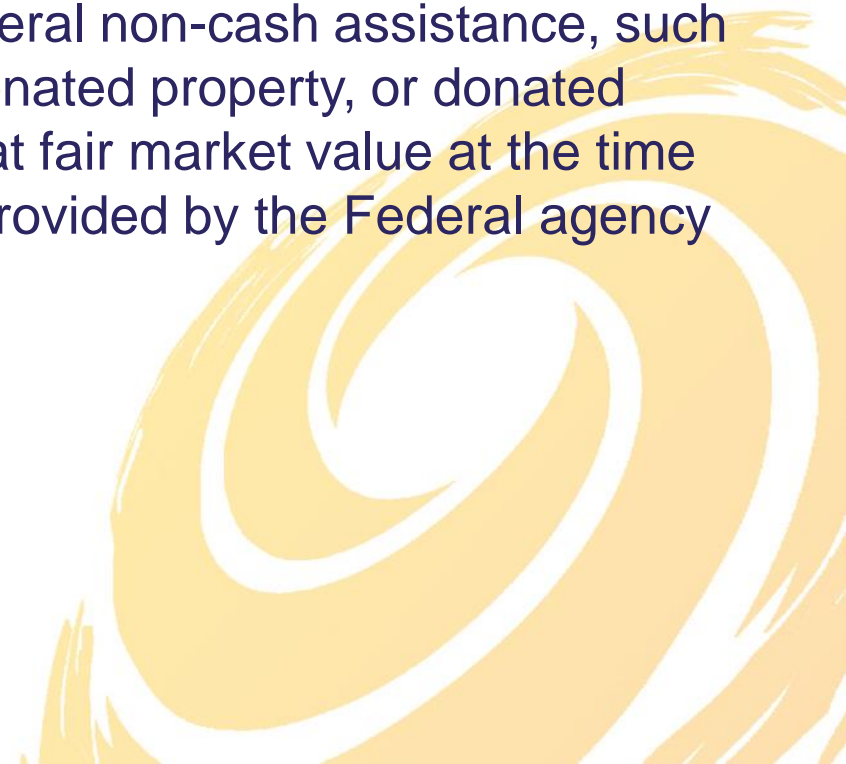


# **Schedule of Expenditures of Federal Awards**



# Schedule of Expenditures of Federal Awards (SEFA)

## 2 CFR 200.502 Basis for determining federal awards expended


- *Determining Federal awards expended.* The determination of when a Federal award is expended must be based on when the activity related to the Federal award occurs.....
  - *Valuing non-cash assistance.* Federal non-cash assistance, such as free rent, food commodities, donated property, or donated surplus property, must be valued at fair market value at the time of receipt or the assessed value provided by the Federal agency
- 

# Schedule of Expenditures of Federal Awards (SEFA)

## 2 CFR 200.510(b)

- (b) *Schedule of expenditures of Federal awards.* The auditee must also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements which must include the total Federal awards expended as determined in accordance with §200.502 Basis for determining Federal awards expended. While not required, the auditee may choose to provide information requested by Federal awarding agencies and pass-through entities to make the schedule easier to use. For example, when a Federal program has multiple Federal award years, the auditee may list the amount of Federal awards expended for each Federal award year separately. At a minimum, the schedule must:
  - (1) List individual Federal programs by Federal agency. For a cluster of programs, provide the cluster name, list individual Federal programs within the cluster of programs, and provide the applicable Federal agency name. For R&D, total Federal awards expended must be shown either by individual Federal award or by Federal agency and major subdivision within the Federal agency. For example, the National Institutes of Health is a major subdivision in the Department of Health and Human Services.
  - (2) For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity must be included.
  - (3) Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available. For a cluster of programs also provide the total for the cluster.
  - (4) Include the total amount provided to subrecipients from each Federal program.
  - (5) For loan or loan guarantee programs described in §200.502 Basis for determining Federal awards expended, paragraph (b), identify in the notes to the schedule the balances outstanding at the end of the audit period. This is in addition to including the total Federal awards expended for loan or loan guarantee programs in the schedule.
  - (6) Include notes that describe that significant accounting policies used in preparing the schedule, and note whether or not the auditee elected to use the 10% de minimis cost rate as covered in §200.414 Indirect (F&A) costs.

# Common Audit Deficiencies: SEFA

- 🌀 Federal schedule is incomplete (missing grants, missing CFDA numbers, missing payments)
  - 🌀 Inclusion of transfer/advance amounts in receipts and expenditures
  - 🌀 Incorrect reporting of commodity values
  - 🌀 Recommendations:
    - Review ledgers for all grant revenue
    - Utilize CCIP to verify information
    - Federal Subsidy Report
- 

# Procurement



# Effective Dates and Grace Period for Procurement

- 🌀 Federal Register 2017-09909 effective May 17, 2017 allowed an additional 1 year grace period for non-federal entities on top of initial 2 year grace period.
- 🌀 **6/30 year ends – effective 7/1/18**





# Acceptable Procurement Methods

- 🌀 Micro Purchases
- 🌀 Small Purchases
- 🌀 Sealed Bids
- 🌀 Competitive Proposals
- 🌀 Noncompetitive Proposals



# Micro Purchases

## 🌀 Purchases of \$10,000 or Less

→ Previously \$3,500 (changed by OMB Memo M-18-18 dated 6/20/18)

## 🌀 Davis-Bacon Act Exception

## 🌀 No Need to Solicit Competition

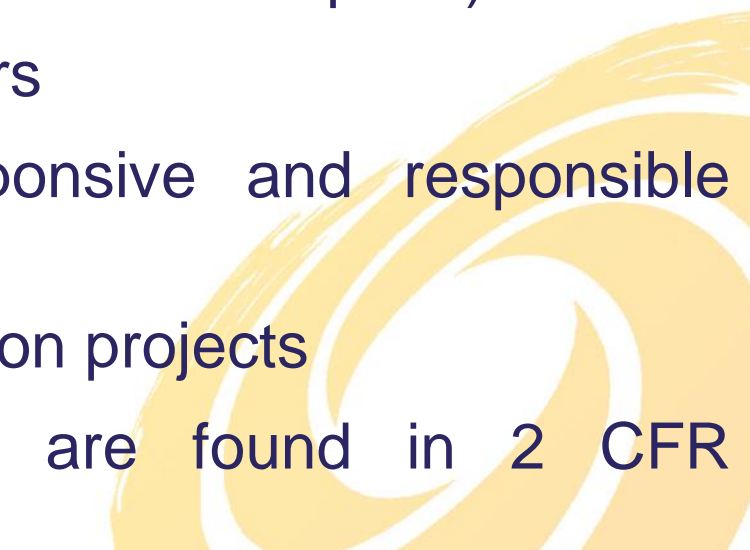
## 🌀 Non-Federal entity must consider the cost to be reasonable

## 🌀 Non-Federal entity must, to the extent practicable, distribute these purchases equitably among qualified suppliers

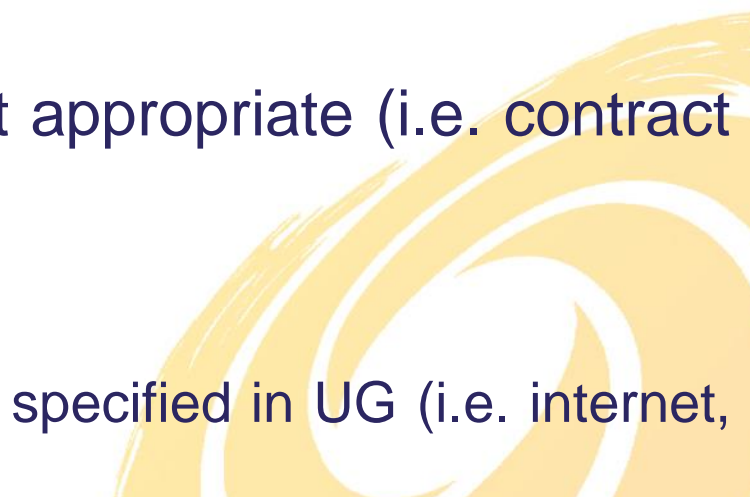
# Small Purchases

- 🌀 Purchases between \$10,000 and \$250,000
- 🌀 Non-federal entity's prior policy likely has much lower threshold, however, it can be increased
- 🌀 Under the simplified acquisition threshold
- 🌀 Price or rate quotations must be obtained from an adequate number of qualified sources
  - UG leaves the discretion of the non-Federal entity written policy to determine the “adequate” number of qualified sources (number greater than one) and the methods of obtaining the price or rate quotations (i.e. in writing, orally, price list on website, etc.)
- 🌀 Excluded from any requirements for cost or price analysis


# Sealed Bids

- ✪ Purchases over \$250,000
  - ✪ Bids are publicly solicited from an adequate number of known suppliers
  - ✪ Firm fixed price contract (lump sum or unit price)
  - ✪ Two or more responsible bidders
  - ✪ Awarded to the lowest responsive and responsible bidder
  - ✪ Preferred method for construction projects
  - ✪ Conditions required for use are found in 2 CFR 200.320(c)(1) and (2)
- 

# Competitive Proposals

- ☉ Purchases over \$250,000
  - ☉ More than one source is expected to make an offer
  - ☉ Either fixed price or cost-reimbursement type contract is awarded
  - ☉ Used when sealed bids are not appropriate (i.e. contract services)
  - ☉ RFP must be publicized
    - How this is accomplished is not specified in UG (i.e. internet, radio, newspaper, etc.)
- 

# Competitive Proposals (continued)

- ✪ Written procedures required for conduct of technical evaluation
  - ✪ Awarded to the most advantageous offer with price and other factors considered
  - ✪ MUST be used for Architectural/Engineering services and price CANNOT be used as a selection criterion (AKA “Brooks Bill”)
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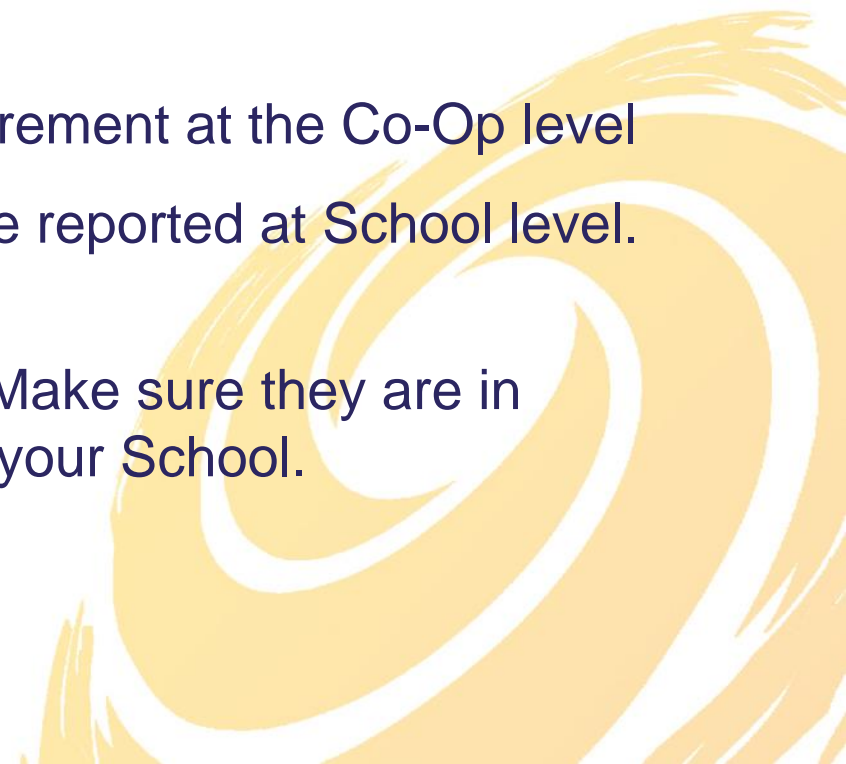
# Noncompetitive Proposals

- ☪ Also known as Sole-Source procurement
- ☪ Appropriate ONLY when certain criteria are met
  - Only available from a single source
  - Public exigency or emergency
  - Federal awarding agency authorization
  - Inadequate competition
- ☪ “JOFOC”
  - Justification for Other than Free and Open Competition is required



# Purchasing Cooperatives

 Do you use a purchasing cooperative for your food service program?

- The School remains responsible for compliance for UG Compliance on all purchases made from the food service fund (program income).
  - Auditors should be testing procurement at the Co-Op level
  - If non-compliance is found will be reported at School level. Possible questioned costs.
  - Communicate with your co-op. Make sure they are in compliance to avoid a finding at your School.
- 



# Common Questions

- 🌀 Is adopting Board policies for procurement alone adequate?
  - No, Non-federal entities are required to have written procedures that conform to the applicable federal law. These should be in addition to board adopted procurement policy.
- 🌀 If I entered into a contract prior to 7/1/18 but expenditures will be after that date will UG procurement apply?
  - No, determining if UG procurement is applicable is based on the date of the procurement activity not the date of the expenditures.
- 🌀 Do ESC contracts qualify for sole source procurement?
  - TBD, ODE is making a determination.

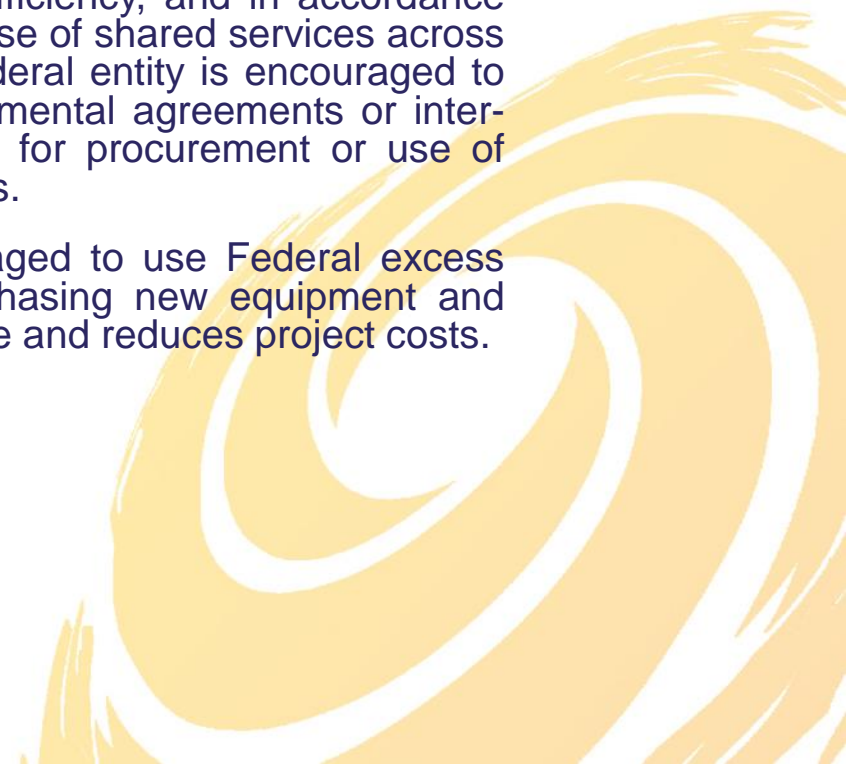
# Common Questions

- 🌀 Does UG Procurement apply to expenditures that will qualify for Medicaid Reimbursement?
  - Yes, if you enter into a contract that will be submitted on the cost report it should follow UG procurement guidance. Medicaid AUPs are performed a year in arrears so this will not be tested until 2020. Potentially could result in cost report adjustment.
- 🌀 What are the potential ramifications for not complying?
  - Non-compliance could result in modified opinion over compliance and questioned costs reported in audit depending on materiality.
- 🌀 What if a change order results in the contract moving to a new procurement threshold?
  - This is subjective. The non-federal entity should have an estimate of what the total control amount will be and if determination is originally based on a reasonable estimate of the contract cost this should not be an issue. Do not intentionally estimate lower then apply change orders to avoid competition.

# §200.318 General procurement standards highlights

- ⑨ (a) The non-Federal entity must use its own documented procurement procedures which reflect applicable State, local, and tribal laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this part.
- ⑨ (b) Non-Federal entities must maintain oversight to ensure that contractors perform in accordance with the terms, conditions, and specifications of their contracts or purchase orders.
- ⑨ (c)(1) The non-Federal entity must maintain written standards of conduct covering conflicts of interest and governing the actions of its employees engaged in the selection, award and administration of contracts. No employee, officer, or agent may participate in the selection, award, or administration of a contract supported by a Federal award if he or she has a real or apparent conflict of interest. Such a conflict of interest would arise when the employee, officer, or agent, any member of his or her immediate family, his or her partner, or an organization which employs or is about to employ any of the parties indicated herein, has a financial or other interest in or a tangible personal benefit from a firm considered for a contract. The officers, employees, and agents of the non-Federal entity may neither solicit nor accept gratuities, favors, or anything of monetary value from contractors or parties to subcontracts. However, non-Federal entities may set standards for situations in which the financial interest is not substantial or the gift is an unsolicited item of nominal value. The standards of conduct must provide for disciplinary actions to be applied for violations of such standards by officers, employees, or agents of the non-Federal entity.

# §200.318 General procurement standards highlights

- ✪ (d) The non-Federal entity's procedures must avoid acquisition of unnecessary or duplicative items. Consideration should be given to consolidating or breaking out procurements to obtain a more economical purchase. Where appropriate, an analysis will be made of lease versus purchase alternatives, and any other appropriate analysis to determine the most economical approach.
  - ✪ (e) To foster greater economy and efficiency, and in accordance with efforts to promote cost-effective use of shared services across the Federal Government, the non-Federal entity is encouraged to enter into state and local intergovernmental agreements or inter-entity agreements where appropriate for procurement or use of common or shared goods and services.
  - ✪ (f) The non-Federal entity is encouraged to use Federal excess and surplus property in lieu of purchasing new equipment and property whenever such use is feasible and reduces project costs.
- 

# §200.318 General procurement standards highlights

- 🌀 (i) The non-Federal entity must maintain records sufficient to detail the history of procurement. These records will include, but are not necessarily limited to the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.
- 🌀 (j)(1) The non-Federal entity may use a time and materials type contract only after a determination that no other contract is suitable and if the contract includes a ceiling price that the contractor exceeds at its own risk. Time and materials type contract means a contract whose cost to a non-Federal entity is the sum of:
  - 🌀 (i) The actual cost of materials; and
  - 🌀 (ii) Direct labor hours charged at fixed hourly rates that reflect wages, general and administrative expenses, and profit.
- 🌀 (2) Since this formula generates an open-ended contract price, a time-and-materials contract provides no positive profit incentive to the contractor for cost control or labor efficiency. Therefore, each contract must set a ceiling price that the contractor exceeds at its own risk. Further, the non-Federal entity awarding such a contract must assert a high degree of oversight in order to obtain reasonable assurance that the contractor is using efficient methods and effective cost controls.
- 🌀 (k) The non-Federal entity alone must be responsible, in accordance with good administrative practice and sound business judgment, for the settlement of all contractual and administrative issues arising out of procurements. These issues include, but are not limited to, source evaluation, protests, disputes, and claims. These standards do not relieve the non-Federal entity of any contractual responsibilities under its contracts. The Federal awarding agency will not substitute its judgment for that of the non-Federal entity unless the matter is primarily a Federal concern. Violations of law will be referred to the local, state, or Federal authority having proper jurisdiction.

# §200.319 Competition

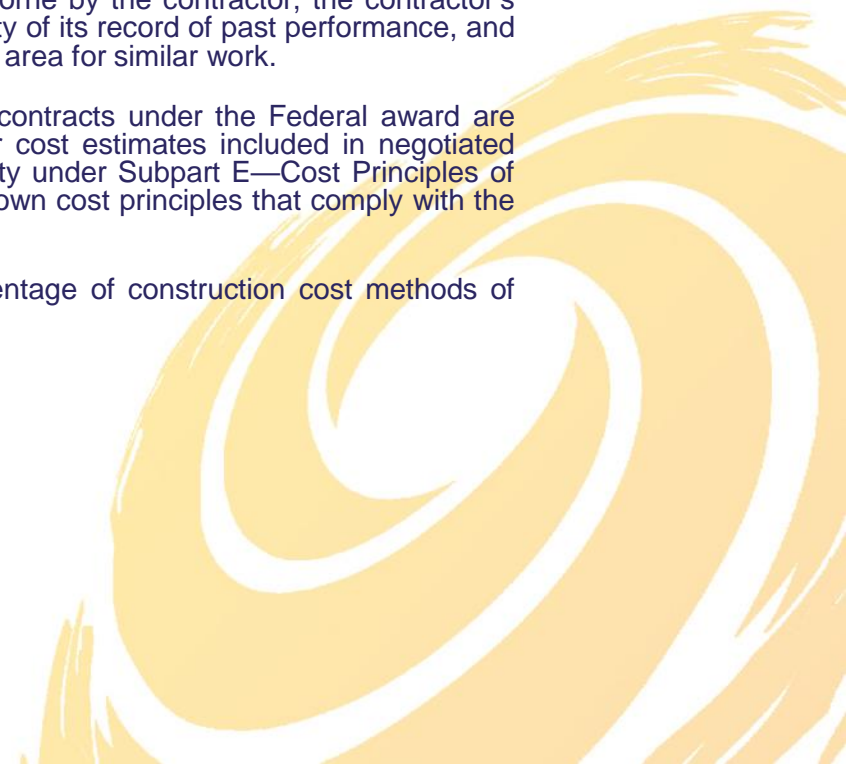
- ✪ (a) All procurement transactions must be conducted in a manner providing full and open competition consistent with the standards of this section. In order to ensure objective contractor performance and eliminate unfair competitive advantage, contractors that develop or draft specifications, requirements, statements of work, or invitations for bids or requests for proposals must be excluded from competing for such procurements. Some of the situations considered to be restrictive of competition include but are not limited to:
  - ✪ (1) Placing unreasonable requirements on firms in order for them to qualify to do business;
  - ✪ (2) Requiring unnecessary experience and excessive bonding;
  - ✪ (3) Noncompetitive pricing practices between firms or between affiliated companies;
  - ✪ (4) Noncompetitive contracts to consultants that are on retainer contracts;
  - ✪ (5) Organizational conflicts of interest;
  - ✪ (6) Specifying only a “brand name” product instead of allowing “an equal” product to be offered and describing the performance or other relevant requirements of the procurement; and



# §200.319 Competition (continued)

- ⑨ (7) Any arbitrary action in the procurement process.
- ⑨ (b) The non-Federal entity must conduct procurements in a manner that prohibits the use of statutorily or administratively imposed state, local, or tribal geographical preferences in the evaluation of bids or proposals, except in those cases where applicable Federal statutes expressly mandate or encourage geographic preference. Nothing in this section preempts state licensing laws. When contracting for architectural and engineering (A/E) services, geographic location may be a selection criterion provided its application leaves an appropriate number of qualified firms, given the nature and size of the project, to compete for the contract.
- ⑨ (c) The non-Federal entity must have written procedures for procurement transactions. These procedures must ensure that all solicitations:
  - ⑨ (1) Incorporate a clear and accurate description of the technical requirements for the material, product, or service to be procured. Such description must not, in competitive procurements, contain features which unduly restrict competition. The description may include a statement of the qualitative nature of the material, product or service to be procured and, when necessary, must set forth those minimum essential characteristics and standards to which it must conform if it is to satisfy its intended use. Detailed product specifications should be avoided if at all possible. When it is impractical or uneconomical to make a clear and accurate description of the technical requirements, a “brand name or equivalent” description may be used as a means to define the performance or other salient requirements of procurement. The specific features of the named brand which must be met by offers must be clearly stated; and
  - ⑨ (2) Identify all requirements which the offerors must fulfill and all other factors to be used in evaluating bids or proposals.
- ⑨ (d) The non-Federal entity must ensure that all prequalified lists of persons, firms, or products which are used in acquiring goods and services are current and include enough qualified sources to ensure maximum open and free competition. Also, the non-Federal entity must not preclude potential bidders from qualifying during the solicitation period.

## §200.323 Contract cost and price

- ✎ (a) The non-Federal entity must perform a cost or price analysis in connection with every procurement action in excess of the Simplified Acquisition Threshold including contract modifications. The method and degree of analysis is dependent on the facts surrounding the particular procurement situation, but as a starting point, the non-Federal entity must make independent estimates before receiving bids or proposals.
  - ✎ (b) The non-Federal entity must negotiate profit as a separate element of the price for each contract in which there is no price competition and in all cases where cost analysis is performed. To establish a fair and reasonable profit, consideration must be given to the complexity of the work to be performed, the risk borne by the contractor, the contractor's investment, the amount of subcontracting, the quality of its record of past performance, and industry profit rates in the surrounding geographical area for similar work.
  - ✎ (c) Costs or prices based on estimated costs for contracts under the Federal award are allowable only to the extent that costs incurred or cost estimates included in negotiated prices would be allowable for the non-Federal entity under Subpart E—Cost Principles of this part. The non-Federal entity may reference its own cost principles that comply with the Federal cost principles.
  - ✎ (d) The cost plus a percentage of cost and percentage of construction cost methods of contracting must not be used.
- 



# Hot Topics



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# Summary of items covered

- 🌀 HB 312

- 🌀 Crowd Funding

- 🌀 Common Issues – Accounts/Contracts Payable



**HB 312**



# Topics

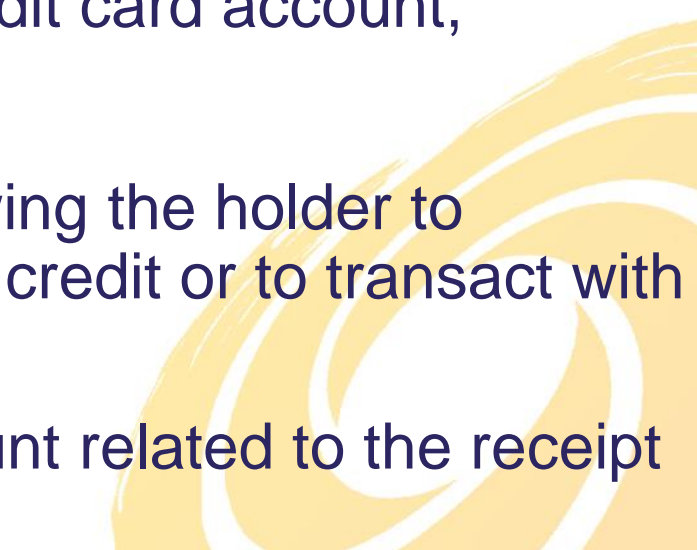
- Effective date
- Types of cards covered
- Policy requirements
- Other Key Factors
- Impact



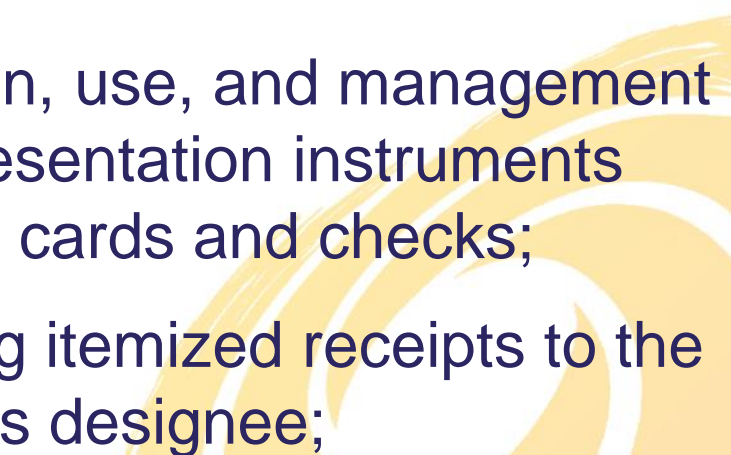
# Effective Date

- 🌀 Effective three months after the passage of the bill, which was passed on June 27, 2018.
  - For all political subdivisions with a credit card account
  - If no credit card accounts, entity must adopt policy prior to issuing a credit card
    - Political subdivision does not include counties.

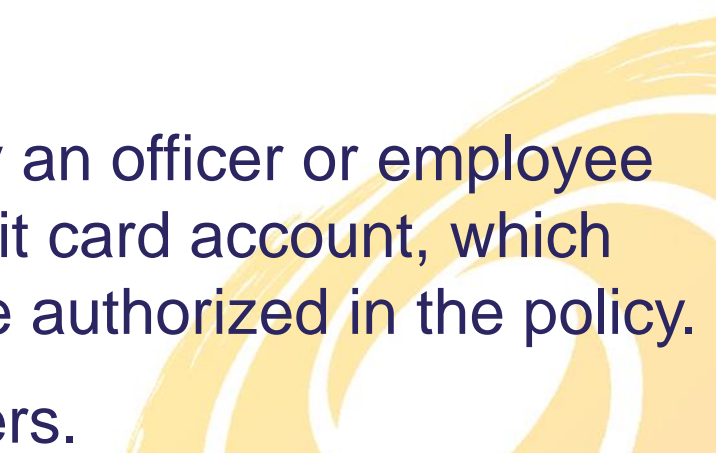
# Types of Credit Cards Covered

- any bank-issued credit card account,
  - store-issued credit card account,
  - financial institution-issued credit card account,
  - financial depository- issued credit card account,
  - affinity credit card account,
  - or any other card account allowing the holder to purchase goods or services on credit or to transact with the account,
  - and any debit or gift card account related to the receipt of grant moneys.
- 

# Policy Requirements

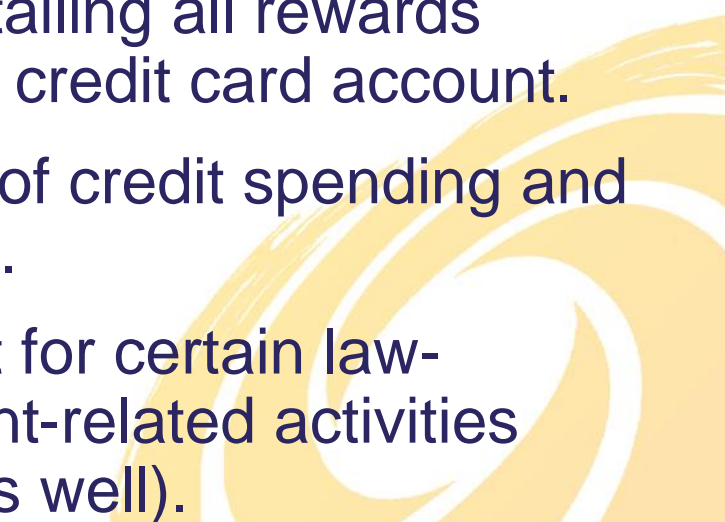
- ✪ (1) The officers or positions authorized to use a credit card account;
  - ✪ (2) The types of expenses for which a credit card account may be used;
  - ✪ (3) The procedure for acquisition, use, and management of a credit card account and presentation instruments related to the account including cards and checks;
  - ✪ (4) The procedure for submitting itemized receipts to the fiscal officer or the fiscal officer's designee;
- 

## Policy Requirements (cont.)

- ✪ (5) The procedure for credit card issuance, credit card reissuance, credit card cancellation, and the process for reporting lost or stolen credit cards;
  - ✪ (6) The political subdivision's credit card account's maximum credit limit or limits;
  - ✪ (7) The actions or omissions by an officer or employee that qualify as misuse of a credit card account, which include expenses beyond those authorized in the policy.
  - ✪ (8) Must identify authorized users.
- 

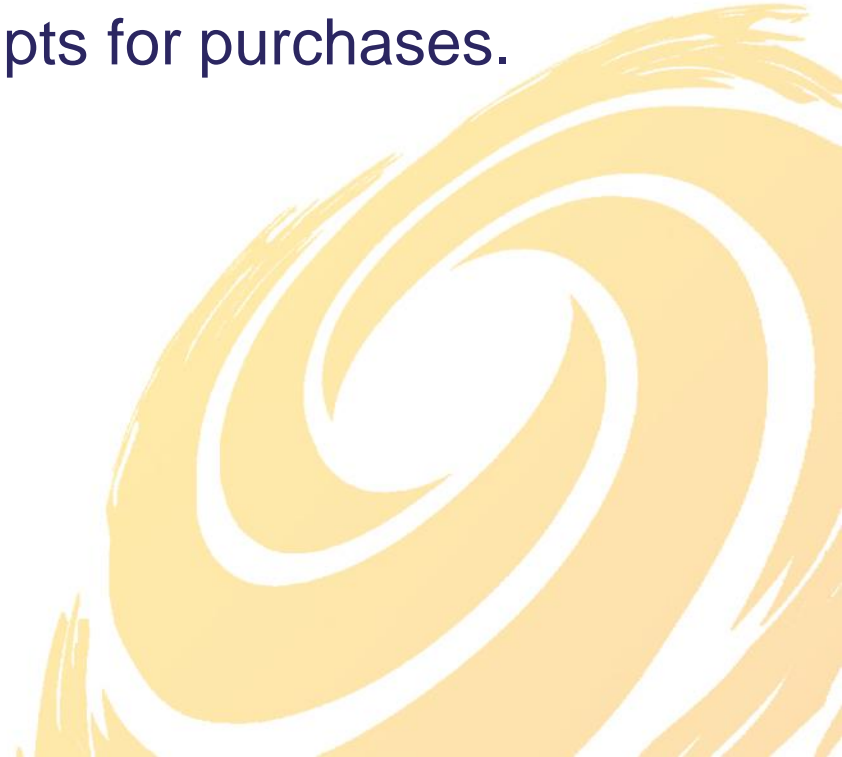


# Other Key Factors

- ✪ Emphasizes liability of an officer or employee for not providing itemized receipts in accordance with the policy in the absence of any official bond.
  - ✪ The fiscal officer or designee must file an annual report with the legislative authority detailing all rewards received through the use of the credit card account.
  - ✪ There will be quarterly reviews of credit spending and reporting to the Auditor of State.
  - ✪ Debit cards are banned, except for certain law-enforcement purposes and grant-related activities (counties must adhere to this as well).
- 

# Impact

- 🌀 Important to review written policies and procedures and make sure they comply with the HB 312
- 🌀 This bill will likely lead to an increase in the number of findings for recovery against users who misuse the cards or do not provide itemized receipts for purchases.



# Crowdfunding

 Gofundme

 DonorsChoose

 Kickstarter



# Crowdfunding

## 🌀 ORC 3313.51 still applies

- Treasurer responsible for all school funds
- In the event monies are unaccounted for, Treasurer could be held accountable

## 🌀 ORC 9.38 applies

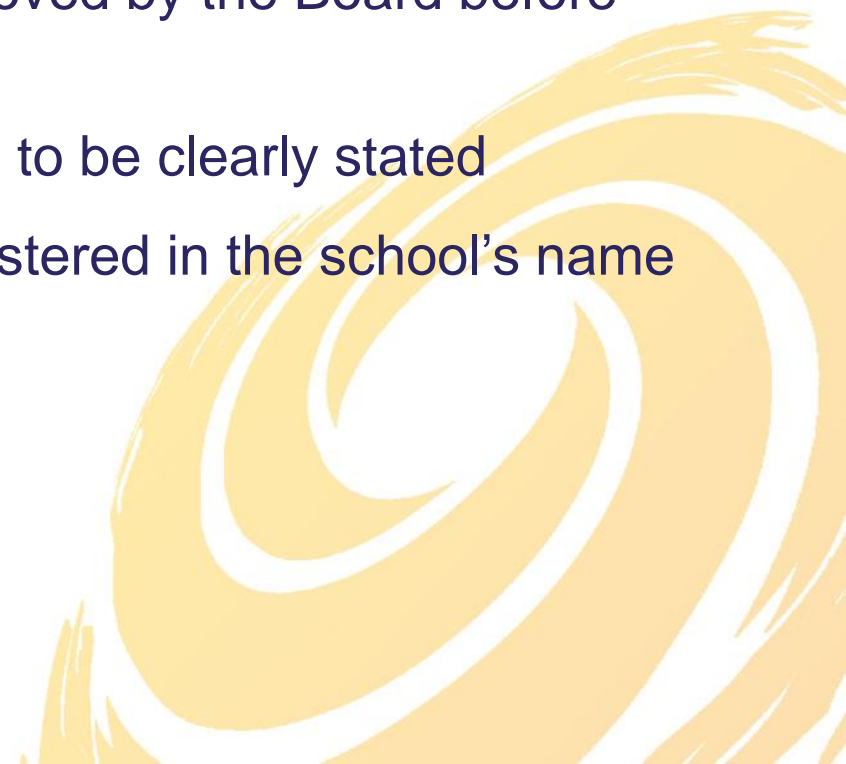
- Monies collected must be deposited in a timely manner

## 🌀 ORC 2921.43 could apply

- Prohibits public employees from soliciting or accepting any compensation for performing their official duties

# Crowdfunding

 Districts should establish a crowd funding policy now to address risks

- Policy should state which platform will be used
  - Require all donations to be approved by the Board before they are accepted
  - Require purpose of all donations to be clearly stated
  - Mandate that campaigns be registered in the school's name
- 

# Crowdfunding

## Financial Controls

- Some sites will allow funds to go directly to the District
  - Best practice if practical
- Require support for deposits if not made directly to the District
  - How do you know the District received all of the donations?
- Record all activity to District ledgers
  - Obtain invoices and receipts if teachers purchase supplies directly

# **Accounts Payable**



# Accounts/Contracts Payable

## Ohio Compliance Supplement


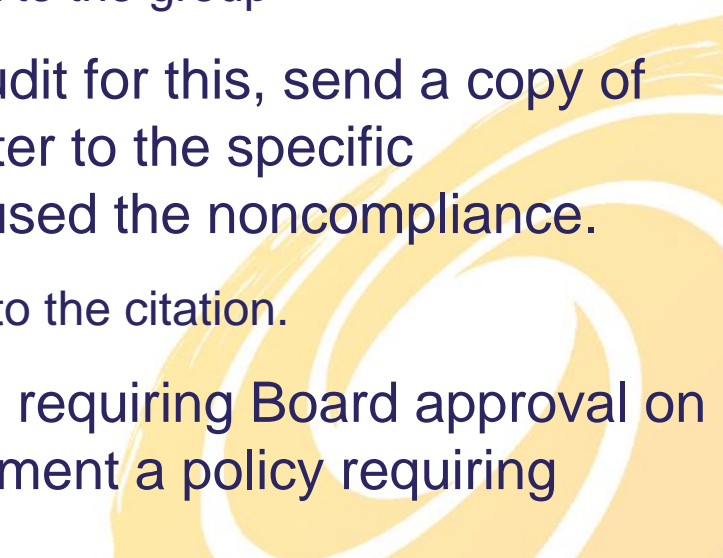
- Located on Auditor of State of Ohio website
  - <http://www.auditor.state.oh.us/references/compliancemanuals.html>
- Used by all auditors in Ohio (AOS and IPAs)
- Includes “Suggested Audit Procedures”

## Most common audit citations:

- 5705.41(D) – purchase orders dated after expenditure is incurred
- Not utilizing a Then & Now
- No Board approval on Then & Now Certificates > \$3,000
- Contracts extending beyond the end of the fiscal year



# Purchase Orders

- 
- How to deal with problematic employees/departments who do not get POs prior to ordering items
- Address at an in-service training
    - Ask auditors to come in and speak to the group
  - If you are getting cited in your audit for this, send a copy of the audit report/management letter to the specific individuals/departments who caused the noncompliance.
    - Require them to formally respond to the citation.
  - Require explanation for anything requiring Board approval on a Then and Now or simply implement a policy requiring communication of all violations.
- 

# Purchase Orders

## → Threaten to not pay the invoices

- No orders or contracts involving the expenditure of money are to be made unless there is a certificate of the fiscal officer that the amount required for the order or contract has been lawfully appropriated and is in the treasury **or in the process of collection** to the credit of an appropriate fund free from any previous encumbrances. [Section 5705.41(D)].
- Processing of Then and Now certificate: The taxing authority has 30 days from the receipt of such certificate to approve payment by resolution or ordinance. If approval is not made within 30 days, there is no legal liability on the part of the subdivision or taxing district.

# Purchase Orders

## Contracts extending beyond the end of the fiscal year

- Should be evaluated prior to year end and closed out for amounts not payable for work done in FY17
  - Work done in June 2017, paid in July 2017 – can remain open
  - Work done in FY17 – should be closed out
    - Pursuant to Section 5705.44, Ohio Rev. Code, where a contract or lease runs beyond the termination of the fiscal year in which it is made, only the amount of the obligation maturing in the current fiscal year need be certified.
  - Reopen PO in FY18 for amount of work expected to be completed in FY18
    - The remaining amount is a fixed charge required to be provided for in the subsequent fiscal year's appropriations.

# Internal Controls over Purchasing

## Controls must be testable

- Make sure to take credit for what you are doing
  - Checkmarks, initials, signatures, etc.
  - What happens when someone is on vacation?

## Bank reconciliations

- Have seen an increase in falsified bank statements in recent years
- Should be performed and reviewed by someone other than the individual responsible for generating checks
- Should be reviewing endorsements on checks during reconciliation, if possible
- Payroll clerk do bank reconciliation on general checking account, and AP Clerk perform reconciliation on payroll account
- Both reviewed by Treasurer

# Internal Controls over Purchasing (Continued)

## Controls over vendor files

- Is there a policy in place over access/editing to vendor master list?
- Who is authorized to set up new vendors in USAS?
- Who is authorized to make changes to existing vendors in USAS?
- Require authorization forms that must be approved by Treasurer
- Search existing vendor files prior to setting up new requests
- Review vendor files regularly
  - Inactivate after a specified period of no payments
  - Review files for missing details (no address, only PO Box, etc)

# Internal Controls over Purchasing (Continued)

## Data extraction software

- Compare employee master to vendor master for common details (names, addresses, phone numbers)
- Analyze vendor master file for potential duplicate vendors (same name, address, etc)
  - Can be caused by different department using same vendor
  - Can result in duplicate payments on invoices

# Higher Risk Expenditures

## Credit card or procurement card purchases

- Policies should, at a minimum, identify authorized users, guidelines for allowable use/ purchases,, specific unallowable uses, reporting, monitoring
- Need solid internal controls over physical access to the cards
  - Complete request form prior to “signing out” a card
  - Require detailed receipts be turned in for all purchases
  - No sales tax should be paid on these transactions
- Always work with bank to restrict Merchant Category Codes



# Higher Risk Expenditures

## Employee reimbursements

- These policies should, at a minimum, identify the types of travel authorized; guidelines for allowable and unallowable expenses; limitations on amount of reimbursement; types of supporting documentation required for reimbursement requests; reporting; monitoring of use by appropriate levels of management; and other guidelines the legislative body deems appropriate.
- Common issue – lack of approval for Treasurer and/or Superintendent's reimbursements
  - Treasurer approve Superintendent
  - Superintend approve Treasurer
  - Board/Board President approve both
- Auditor of State of Ohio Best Practices (Spring 2004/Winter 2009/10)



# Common Audit Deficiencies: A/P - Payroll

## AP Process

- Control failure: No approval for payment
- Segregation of duty: Ability to order, receive and approve goods/services for payment
- Policy: Packing slips/lack of support for quotes
- New vendor process
  - Access to vendor master outside of Treasurer's office
  - Absence of documented process – including level of approval
- Duplicate vendors in the vendor master with activity (Incorrect payment can result in finding for recovery )

## Payroll Process

- Contract issues
- Mileage allowance v. reimbursement
- Not defining contract items outside of the negotiated agreements (administrator)
  - Annuities, vacation pay out, cell phone stipend, etc.
- Employees not included in the negotiated agreements paid in accordance with salary schedules in negotiated agreements

# Common Audit Deficiencies: Compliance - ORC



Most common audit citations:

- 5705.41(D) – purchase orders dated after expenditure is incurred
  - Not utilizing a Then & Now
  - No Board approval on Then & Now Certificates > \$3,000
  - No formal approval of maximum amount allowed for blanket purchase orders
- Budgetary violations (expenditures > appropriations and/or appropriations > estimated resources)
- Negative cash balances: AOS Bulletin 97-003
- Self-insured entities not obtaining actuarial to support year end claims liability in accordance with ORC 9.833(C)(1)
- Failure to deposit collections within one business day or a policy safeguarding amounts less than \$1,000 for up to three business days in accordance with ORC 9.38



Not filing GAAP in accordance with OAC 117-2-03(B)



Filing of financial statements on the AFDRS (Hinkle System) in accordance with ORC 117.38



FTE items (Calendar assignment, excused absences, withdrawal, enrollment)

- Most are within interpretation of District policy/student handbook regarding excused absences
  - Out of town/family vacation/hunting

# Common Audit Deficiencies: Contracts Payable

- ❄ Failure to include total amount payable on construction or related expenses crossing year end
  - If you have a large project going on, do not rely on the PAYABL report alone
  - Make a list of all contractors on the project
  - Pull first check written to each vendor in subsequent fiscal period
    - Review contractor's "Application for Payment" for work performed to date (typically monthly)
    - Make sure you are picking up all subsequent payments with work performed in the current period (may be more than one payment lag)
  - These payments are large, so if you miss one, it could result in a material audit adjustment!

QUESTIONS?

