



## Presenters

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## Agenda

- 1 What are the areas of risk for the organization and the charter school?
- 2 Setting up your Organization and Proper Internal Controls
- 3 Protecting an Organization from Financial Misconduct
- 4 The Risk of Non-Compliance
- 5 How to deal with Fraud and Mismanagement



## Areas of Risk:

1. What could lead an organization to fail?
  - Charter Compliance Issues
  - Legal Status of the Non-Profit Organization
  - Not planning ahead
2. How is fraud defined?
3. What are the different types of fraud?
4. What is mismanagement?
5. What causes mismanagement?



### Initial Structural Considerations

1. One or Multiple Schools, One or Multiple Sites?
2. Corporate Structure
3. Conflict of interest
4. Accounting Set Up (including related entities)
5. Board Issues
6. Compliance (Charter, LCAP, SSD, SPSA)



### Internal Controls

Systems of policies and procedures designed to prevent fraud, waste and misappropriation

- Protect the assets of an organization
- Create reliable financial reporting
- Promote compliance with laws and regulations
- Achieve effective and efficient operations



### Who is Responsible?

- While everyone in the school is responsible for the internal controls; the board of trustees, administrators and management are ultimately responsible.
- Charter schools which seek excellence in their operations must establish and maintain a strong internal control system that is effectively communicated to all.

- ✓ Teachers
- ✓ Office Managers
- ✓ Food Service
- ✓ Vendors & Subcontractors
- ✓ Volunteers



### Fiscal Responsibility: "DOs" & "DON'Ts"

#### Refer to Handouts

- ExED's "DOs" and "DON'Ts" of Charter School Fiscal Responsibility
- Segregation of Duties
- Where Financial Misconduct Occurs
- Fraud Triangle



## Fraud Prevention Checklist

The most cost-effective way to limit fraud losses is to prevent fraud from occurring. This checklist is designed to help organizations test the effectiveness of their fraud prevention measures.

1. Is ongoing anti-fraud training provided to all employees of the organization?
2. Is an effective fraud reporting mechanism in place?
3. To increase employees' perception of detection, are the following proactive measures taken and publicized to employees?
  1. Are there any policies in place that prohibit employees from reporting fraud?
  2. Are there any policies in place that prohibit employees from reporting fraud?
  3. Are there any policies in place that prohibit employees from reporting fraud?
4. Is the management climate/tone at the top one of honesty and integrity?



## The Fraud Diamond: Considering the Four Elements of Fraud

### Incentive / Pressure

Management or other employees may have an incentive or be under pressure, which provides a motivation to commit fraud.

### Rationalization / Attitude

Those involved in a fraud are able to rationalize a fraudulent act as being consistent with their personal code of ethics. Some individuals possess an attitude, character or set of ethical values that allows them to knowingly and intentionally commit a dishonest act.

### Opportunity

Circumstances exist – for example, the absence of controls, ineffective controls, or the ability of management to override controls – that provide an opportunity for fraud to be perpetrated.

### Capability

Personal traits and abilities that play a major role in whether fraud may actually occur even with the presence of the other three elements.



### Areas of Fraud and Mismanagement:

1. Internal Controls & Policies and Procedures
2. Facilities
3. Compliance
4. Legal issues



### Mismanagement

1. Weak Internal Controls
2. Lack of Accountability
3. Lack of transparency in decision making



## Facilities

1. Conflict of interest
2. Support enrollment growth
3. Are costs of facilities aligned with the lease agreement?



## Compliance

1. Chartering District
2. Reporting requirements: ConApp, CALPADS, CMDC, etc
3. LCAP –Aligning services and expenses
4. Federal: Time accounting, Fixed Asset Inventory, Policies in place:
  - Parental Involvement
  - Homeless Education
  - English Learner Advisory Committee



## Legal Issues

1. Organization Set up
2. Failure to comply with Brown Act
3. Failure to comply with IRS and other government agencies
  - Non-Profit Status
  - Related Entities (for facilities or other)
4. Failure to plan ahead
  - Growth
  - Insurance
  - Construction Projects



## How to deal with Fraud/Mismanagement

### Key Steps

- Report
- Document
- Monitoring the process

### Have a plan to stop the process in which the fraud was started

- Cancel checking accounts
- Monitor payroll for suspicious activity
- Delete subject's password and access to computers and school.
- Notify Vendors involved
- Keep a log of events with dates and people involved





## How to deal with Fraud/Mismanagement

### Develop Game Plan

Securing documents and records associated with the alleged fraud

Process of interviewing subject

- Placing on Administrative Leave
- Discipline

### Interviews

Who should interview

- Management and a witness
- Certified Fraud Examiner associated with Accounting Firm
- Notify local Police Department.



## How to deal with Fraud/Mismanagement

### Charter School Insurance

- Know your Charter School Insurance policy
- What is covered



## Questions?

- Q&A session

