ACTIONS TAKEN BY TEXAS SCHOOL DISTRICTS TO PREVENT FRAUD

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Dissertation Prepared for the Degree of

DOCTOR OF EDUCATION

UNIVERSITY OF NORTH TEXAS

May 2011

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This research is a descriptive analysis answering the question, what measures are currently taken by the leadership—boards of trustees and superintendents of schools—of Texas school districts to prevent embezzlement? The research perspective utilized was quantitative with a descriptive, cross-sectional design. Data collection was accomplished through a survey with questions constructed from the most commonly recommended strategies discovered through the review of literature. The data set created concentrates on the four most common preventive measures: policy and procedure, management, auditing, and ethics. These measures are considered as they function to interrupt the principles of the fraud triangle. Comparisons were completed regarding region, district size, superintendent tenure and superintendent experience. Policy adoption was found to be extremely widespread. Procedures written to fully implement policy were less prevalent. Review of management practices found problems concerning credit cards, personnel evaluations, and password access to multiple computer finance recordkeeping systems concentrated in one employee. External auditing programs were universal due to statutory mandate but internal auditors and internal audit committees were few. Ethics training for business office personnel existed but with little consistent application across districts. The adoption of a code of ethics for business office personnel was rare.
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by

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ACKNOWLEDGEMENTS

I would like to acknowledge the contributions of those who were instrumental in helping me reach this goal. I want to start by recognizing the contributions made by colleagues: (a) my professors and fellow students in the doctoral program, (b) the superintendents of schools in Texas, and (c) my friends and coworkers at Region 10 Education Service Center.

Special thanks to the four professors who invested the time to serve on my committee. I appreciate Dr. Bill Camp for guiding me throughout the program. Dr. Bob Bland was crucial in fostering my appreciation of the similarities and differences of public administration and school administration. Dr. John Brooks helped get this started by telling me the doctorate was not optional but required. Finally, thanks to Dr. Doug Shouse for bringing a practitioner’s eye to the topic.

The greatest thanks must go to my family. My wife, Kelly, has always believed in me and supported my goals. My sons, Lawson, who kept asking when he could read the dissertation and Coleman, who kept asking when he could call me doctor. Thanks to my sister Kathryn for setting an impossibly high standard for scholarship that I have never been sure that I could match.

Finally, thanks to Mom and Dad for instilling in me the love of learning and the confidence that I can achieve anything. In 1997, Mom planted the idea that I should earn this degree. She will not be there to see me wear the tam with my doctoral regalia, but I will think of her when I wear it.
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CHAPTER 1
INTRODUCTION

In the fall of 2003, the superintendent of Bremond Independent School District (ISD) in Bremond, Texas, resigned after curious taxpayers in the district discovered that he had been paid $107,000 even though the salary approved by the Board of Trustees was $86,000. Two years later the case had grown to include misuse of credit cards and payments to individuals not employed by the school district. The superintendent and two others were indicted by a grand jury for theft and misappropriation of funds.

The idea that public funds are embezzled is not new. However, the idea that it can happen in their own city or school district is foreign for most people. The people of Bremond were no different. The case caused furor in the town and divided the community. Though theft was not condoned by anyone, how the case should have been resolved was debated by citizens (Jennings, 2005).

While Bremond ISD is a small school district of less than 500 students and 100 employees, the size of a school district is irrelevant when determining the probability of an embezzlement or fraud taking place. In 2004, an employee of the Fort Worth Independent School District (FWISD), one of Texas largest districts with more than 79,000 students and 10,600 employees, pled guilty to defrauding the district of more than $10 million. The director of maintenance worked closely with a job-order contractor for concrete to falsely bill the district
for work that was not performed or to bill the district for an amount greater than the actual cost and more than the contract allowed (Mosier and Stiles, 2004).

The investigation eventually discovered other fraud schemes that were bilking Fort Worth ISD. False documents submitted from a welding contractor accounted for the theft of several hundred thousand dollars. In September 2004 the contractor pled guilty to a federal tax evasion charge related to the inflated charges paid by Fort Worth ISD (U. S. Department of Justice, September 24, 2004).

Bremond ISD and Fort Worth ISD are not unique in suffering financial mismanagement, nor is it a Texas problem alone. Superintendents and high level central office administrators are not always the employees responsible either. In Aberdeen, South Dakota, the director of buildings and grounds used district funds to pay for repairs to a personal automobile. He also took and kept at his home school owned equipment and tools (Waltman, 2007). In Hampstead, Maryland, a middle school secretary, who was entrusted with creating the procedures for handling money when the school building originally opened, was accused of stealing more than $20,000 (Gencer, 2006). In Darien, Illinois, the business manager of Cass School District 63 was sentenced to five years in prison and ordered to repay nearly $80,000 that she was convicted of stealing. She admitted to misuse of district credit cards, issuing duplicate paychecks to herself and cashing district checks made out to cash (BRIEF: Ex Darien, 2008).
Fraud involving school funds deprives the district of the assets that allows it to provide an education to students (Smith, 2008). According to the Federal Bureau of Investigation (FBI), in 2007 there were 22,381 arrests made and the arrestee indicted for embezzlement of public funds. Although cities and other local governments are included along with school districts in these statistics, the implications toward schools are valid (U. S. Department of Justice Federal Bureau of Investigation [FBI], 2007, Table 29). Of the arrests the FBI reported, 427 were made in Texas. While 427 arrests for embezzlement is a significant number, it is dwarfed by the number of arrests in other states such as: California (2,268), New York (1,031), Florida (1,450), Michigan (1,249), Tennessee (1,155), North Carolina (1,865), and Virginia (1,817) (FBI, Table 69). Considering that the population of Texas is larger than all of those states with the exception of California, the number of Texas arrests per capita is much smaller. Although the significance of those numbers is important, it is critical to note that Texas has a lower reported or recorded incidence of embezzlement. This fact may be due either to better prevention or a higher occurrence of unreported or undiscovered cases. Unfortunately, FBI statistics do not separate the statistics by the type of victimized agency so the Texas statistics cannot be identified as schools versus city or county governments.

Like the crime itself, obtaining reliable statistics on occurrences is not limited to schools. In fact, statistics on the prevalence of embezzlement are extremely difficult to acquire in both the public and the private sectors. In regard
to tracking the crime, one of the unfortunate realities is that perpetrators are often charged, convicted, and sentenced for other crimes, such as forgery, theft, misappropriation of public funds, or larceny (Zietz, 1981). Thus the researchers and the public are left pondering how often these violations of public trust actually occur. Researchers in corporate embezzlement have some advantage because they can access statistics provided by bonding companies and business associations, but even this information is not complete. These sources have intrinsic limitations due to factors such as companies only bonding a limited number of employees, smaller companies choosing not to pay to bond employees as a cost savings, and companies choosing not to share information with trade organizations (McCullough, 1981).

School districts may never officially acknowledge fraud or embezzlement for several reasons. They may wish to avoid further expenses incurred by investigating or even the pursuit of criminal proceedings. Others may believe the incident to be minor and unworthy of police attention. A significant number of superintendents and boards of trustees may also wish to avoid publicly admitting to taxpayers and district residents that the theft occurred (Smith, 2008). The fraud or embezzlement is “swept under the rug” and then forgotten by the institution after the principal participants and decision makers are no longer present in the school district. The extent of the theft of school funds is difficult to ascertain because as Smith points out, “One of the enduring limitations of
quantitative research into fraud is that a high proportion of instances are not reported officially” (Smith, p. 383).

In addition to the inability to track and possibly prevent future occurrences, other major consequences of the “sweep it under the rug” mentality are real and profound problems resulting from fraud or embezzlement. Obviously and critically it leads to depleted resources. The stolen funds should have been used to supply students with learning tools and materials, thus creating the very real possibility that student achievement suffers. Houston, Texas, school superintendent Terry Grier said it this way after attending the sentencing hearing for a former school district accountant convicted of stealing money, “Our students and the Houston taxpayers have been irreparably harmed by an orchestrated and planned theft of money that should have been used for education” (Fraud will not, 2010). Just as important a consequence of hiding the theft is the result that other individuals in the business office, such as managers and clerks who are honest in their work and in some cases were responsible for discovering the fraud by their coworkers, become discouraged and disgusted by scandals and leave for other employers. The same is true for faculty members who see business office problems as a betrayal to the work they do with students. The effect on educational achievement is not hard to link. Districts with histories of financial misdeeds by managers, such as Jersey City and Newark, New Jersey, and Lawrence, Massachusetts, have also been taken over by state education officials in attempts to reform instruction and improve achievement (Segal, 2004).
How do school leaders, elected and appointed, prevent fraud and embezzlement? What are the appropriate actions a district should take to prevent future criminal occurrences? All leaders assume that the person keeping the books is honest in the job. Leaders simply do not hire or retain an individual to handle district funds if they question the person’s honesty. The fact remains that these problems occur and leaders are forced to cope with the fall-out, and then try to prevent it in the future.

Statement of the Problem

An embezzlement or theft of school district funds requires a two-fold response by the leadership of public entities such as school districts. First, those responsible for the embezzlement or theft are dealt with through personnel action, criminal proceedings and, in some instances, civil court cases aimed at recovery of the funds. Resting beside these reactive responses dealing with the perpetrators, including possible payment of restitution, the entities also need to institute measures to prevent future incidents. These preventive responses are proactive measures serving the dual purposes of instituting tighter control of funds and reassuring the public that such episodes will be prevented.

Protection of public funds is one of the primary functions of the boards and councils that govern public entities; so the embezzlement of such funds reflects directly on the members of the governing body and the chief executive the board employs. Therefore, in a school district of the State of Texas, it is the school district board of trustees and the superintendent of schools who must take
action to prevent fraud. In instances where embezzlement has occurred, the first action of the board of trustees may be the removal of the superintendent from his/her position. However, most boards prefer to take action before the need to remove a superintendent arises. This study was developed to ascertain whether Texas school districts’ leaders currently manage financial activities by implementing the four strategies most often recognized in literature to prevent embezzlements and frauds.

Current literature in school and public finance indicate that public entities must be actively administered using four methods of preventing thefts by employees. The four common strategies for deterring and preventing embezzlement include (1) policy and procedure, (2) management, (3) audits, and (4) ethics training.

Rules that are clearly stated (policy) and followed without deviation (procedure) create a framework that will guide employees to properly handle funds and financial records (Murdoch, 2008). Once well written policies and procedures are in place, then the organizational leadership actively manages procedures to ensure compliance. If circumstances dictate, the management shifts from insuring compliance and to enforcing the policy. Active management using policy and procedures leads dishonest employees in the workplace to perceive that managers are closely monitoring their work and are, therefore, less likely to attempt a fraud (McCullough, 1981).
In order to assure senior leadership and the public that funds are protected, the third piece to embezzlement prevention is auditing. It is helpful to see these three as progressive prevention. Policy and procedure are created and their implementation is overseen through management. Financial records and management practices related to enforcing policy are then reviewed by auditors. In some cases, two layers of audit (internal and external) are utilized. Management’s adherence to the policy and the resulting records are evaluated by internal auditors. Then management, financial records, and internal auditors are assessed by outside auditors. The external auditor’s report then expresses an opinion as to the accuracy of the record keeping and financial decision making (Granof and Wardlow, 2003). Auditing is a form of risk management and failure to utilize auditing amounts to neglect (McCullough, 1981).

The fourth tactic consistently reported in literature is institutional ethics and ethics instruction. Maintaining an ethical school finance operation takes planning and effort. Superintendents and boards of trustees must work to create and maintain an ethical foundation for the organization’s employees. This foundation alone is not enough, because like other professions, effective school business employees must have an ethical framework from which to base their decision making. This personal or individual base must be learned and embraced early in the individual’s employment and career in order for him to rely on it when a quandary arises (Colgan, 2004). The concept of ethics appears often in discussions of management, and intuitively it should be recognized that policy
must be ethically written and auditors must behave ethically. Although it overlaps
the other factors, ethics, specifically employee ethics, is a fourth and independent
concept.

In addition to discovering whether the commonly recommended measures
discovered in the review of literature are used, the study also sought to
determine what other strategies are utilized by Texas school districts. Allowing
respondents to provide specific locally adopted measures broadened the study’s
discovery of current practices.

Purpose of the Study

The purpose of this study was to explore what proactive measures school
districts take to prevent embezzlement of funds. The study sought to ascertain
what actions have been taken by superintendents and boards of trustees of
Texas school districts to prevent theft by an employee. School district leadership
uses these actions to assure themselves and the public of the safety of school
district funds.

The review of the literature suggested that school districts should implement
four significant strategies; therefore the study searched for the following:

- Do districts have clear and comprehensive written policies and procedures
to prevent embezzlement?
- Do districts have leadership that actively manages the finance office and
  finance personnel?
- Do districts employ regular audits of their financial records?
• Do districts insure that all employees have training and professional development in ethics?

These four questions about strategies led to the development of the research question and 10 specific inquiries which focused the study.

Research Question

This study sought to ascertain the following: what measures are currently taken by the leadership—boards of trustees and superintendents of schools—of Texas school districts to prevent embezzlement? In order to discover the current practice, the following inquiries, specific to the themes encountered within the review of literature, guided the study:

• Have districts adopted local policies and procedure to prevent embezzlement?

• Are districts utilizing external and internal auditing systems; including whether districts expanded the external audit processes beyond that required per Texas state law?

• Have superintendents and other administrators adopted management practices to prevent embezzlement?

• Have districts established or adopted a code of ethics for employees handling money and keeping financial records?

• Have districts established requirements for ethics training for employees and have districts established or adopted ethics training programs for employees?
• Have districts established or adopted other techniques to deter employee theft?

• Are there differences in implementation of preventive measures based on the size of the district?

• Are there differences in implementation of preventive measures based on the location of the district?

• Are there differences in implementation of preventive measures based on the amount of ethics instruction received by the superintendent of the district?

• Are there differences in implementation of preventive measures based on the tenure and experience of the superintendent?

Significance of the Study

Citing a 1977 study from the American Management Association, McCullough (1981, p. 10) draws these conclusions:

1. Small- and medium-size businesses do not have effective security systems.

2. Their executives are naïve about the measures they can take to reduce crimes against them.

3. They do not realize that loss prevention/asset protection is a management problem, amenable to solution by the application of documented management principles.
These three statements are true of school districts. Most school districts are similar in size and budget to small- and medium-size businesses. Superintendents, almost universally, were originally trained as teachers and have little background for reducing or preventing fraud. Superintendents and elected school boards often lack the management knowledge to expand prevention and protection beyond insurance, bonding, and state mandated auditing.

Schools are as vulnerable to embezzlement as any business, large or small. This type of fraud is found in every situation. School administrators are often less prepared than their counterparts in business, both corporate and small, to manage in a manner that prevents fraud and embezzlement. In California the state legislature sought to provide help by creating the Fiscal Crisis and Management Assistance Team to aid school administrators who suspected problems in their schools. At the invitation of school districts, the team now conducts nearly 50 audits every year (Dessoff, 2009). Although the state comptroller’s office and the Texas Education Agency will conduct audits of school districts, neither focus on helping school districts prevent fraud like this California model. This fact reiterates the need for district leadership to initiate prevention measures locally. The size of Texas school budgets, the need for schools to use tax dollars from their communities to provide public education, and the unfortunate situations described earlier in the experiences of Bremond ISD and Fort Worth ISD, all illustrate the significance of understanding the current prevention practices of Texas school districts.
Definition

In preparing his classic 1953 (reprinted 1973) study, *Other People’s Money: A Study in the Social Psychology of Embezzlement*, Donald Cressey noted that his subjects were all incarcerated for the same type of criminal behavior but their crimes were labeled with a variety of terms such as embezzlement, fraud, theft, and larceny. In order to simplify understanding by the reader, he defined all of the crimes as “the criminal violation of financial trust” and used the various terms interchangeably in the text (p. 22). For the purposes of this study the same choice was made to use the same technique. While recognizing that attorneys and some scholars may desire a distinction, considering the purpose of this study distinguishing between the terms would have been confusing and unjustified. Unless a term referring to a specific crime is defined within the text, it should be understood that embezzlement, fraud, etc., are used interchangeably by the author. Fraud and embezzlement are a criminal violations of financial trust.

Limitations

This research was limited to the study of Texas municipal and independent school districts. The need to deter fraud and the concepts for preventing it are common among all public governmental institutions. School districts in other states, Texas charter schools, and municipal governments would likely benefit from the theoretical concepts presented in this study. However, the
differences in governing structure and in state statutes make the findings non-applicable.

Summary

School districts in Texas and across the country are susceptible to fraud and embezzlement because of the number of financial transactions and the large amounts of money spent to educate children. The leaders of schools are typically not financial managers; rather they are superintendents trained as educators and elected school board members from a variety of backgrounds, but few with an understanding of how to prevent such crimes. These criminal violations of the trust rob the schools of the precious funds allotted to the schools.

Schools districts can prevent or at the very least deter employees from committing these crimes by instituting a combination of methods. This study was undertaken to determine what measures are currently taken by the leadership, boards of trustees and superintendents of schools, for Texas public school districts to prevent embezzlement.
CHAPTER 2

REVIEW OF RELATED LITERATURE

This study sought to ascertain the following: What measures are currently taken by the leadership, boards of trustees and superintendents of schools, of Texas school districts to prevent embezzlement? A review of current literature related to the topic of embezzlement of public funds was necessary to understand what preventive measures should be taken in order to have a frame of reference for current practices.

William Black uses a simple definition about how people commit fraud or embezzlement: “Fraud is by deception: one creates and exploits trust to cheat others.” He adds “…fraud erodes trust” (Black, 2005, p. 1). Schools need the trust of the public to succeed, so it is paramount that the administration of the schools be above reproach in the handling of the funds entrusted to them by the public, just as they must be above reproach in the way they treat the children and youth of the community.

Entities that suffer embezzlement typically have common organizational factors that contribute to the ability of an employee being able to commit the crime. First, internal controls are limited or irrelevant in scope. Second, there exists a fear of exposure to the public and a fear of the embarrassment that would accompany it. Third, the entity limits its reaction to dismissal of the employee and nothing stronger such as criminal action. Lastly, there often exists
a belief that the organization is invulnerable to such internal mischief (Singh & Kashyap, 2009). Confronting these factors and understanding why individuals commit the crime is critically important to preventing it. The purpose here was not to gain a complete understanding of the pathology of people who commit these crimes but to understand their commonalities.

The Fraud Triangle

To say that embezzlers are drawn to act simply because they need money does not completely explain the act. Many individuals live with the pressure of debt or financial hardship and never turn to theft. Donald Cressey, professor and sociologist, proffered that embezzlers lose the ability to share their financial problem. The reasons the problem has become unshareable vary. Examples include a gambling problem, alcoholism, extravagant lifestyle meant to please a spouse, or maintain an extramarital affair. The list is unending, but all these situations trap the individual into thinking that embezzling is better than admitting their problem, shortcoming, or fallibility (McCullough, 1981).

Therefore, any discussion of fraud and embezzlement prevention must be accompanied by this classical understanding of those who commit the crime. Accountants are typically taught about the “fraud triangle,” a concept was created by Cressey in his book, Other People’s Money: A Study in the Social Psychology of Embezzlement, which was originally published in 1953. The multi-year study was based on interviews of individuals imprisoned for committing crimes generalized as embezzlement. All the criminals interviewed had stolen from their
employers. His research sought to explain the basic elements that lead individuals to commit fraudulent acts. He identified three common characteristics present in instances when individuals choose to commit embezzlement. The first characteristic is a belief that they have a problem which cannot be shared with anyone. The second is that an opportunity to solve the problem appears to exist through the commission of embezzlement. Last, the individual is able to rationalize the illegal behavior to himself or herself and believes others will agree with his rationalization.

A non-shareable problem is always defined by the perpetrator of embezzlement. Sometimes the embezzler has a real financial problem that causes him or her to steal. However, these tangible problems are not the only ones that cause employees to steal. Many times third party observers and even family, acquaintances, and coworkers view the problem as nonexistent, inconsequential, or understandable but to the perpetrator disclosure of the problem is unthinkable. Ascribed obligations are one common example of a non-shareable problem. These obligations are expectations, such as avoidance of gambling or alcohol, the person believes are placed on him or her because he or she is in a position of financial trust. If he or she has a gambling or drinking problem, he or she must hide it to maintain his job.

Another example is personal failure that the employee feels would threaten his status or reputation. This is especially true if he or she feels that
others will believe the failure is because of bad judgment or stupidity. In all these cases the employee believes he or she will lose employment (Cressey, 1973).

Like the previous example, the problem may not actually be financial, but whether it is or not, the embezzler believes that money would solve the problem. Another example of a non-financial, non-shareable problem is when an employee steals to get revenge on his employer for a real or imagined mistreatment. The employee that believes he or she should have received a promotion or should have been given time off is a typical illustration. The stolen money becomes the punishment to the employer or supervisor (Cressey, 1973).

The non-shareable problem stands alongside the second side of the triangle, which is the opportunity to solve the non-shareable problem by embezzling. The opportunity exists because the employee has general information about how and where money is handled. Opportunity also means the employee has the technical skill to commit the crime. The technical skill may be as simple as being left alone to count cash, or it may be as complex as forging checks through an electronic bookkeeping system. Opportunity cannot be completely eliminated because every financial system includes positions of trust (Cressey, 1973).

The third side to the fraud triangle is the ability of the individual to rationalize the embezzlement. Cressey specifically acknowledges that this rationalization precedes the act. The rationalization is not an excuse; rather it "enables him to look upon trust violation (a) as essentially non-criminal, (b) as
justified, or (c) as part of a general irresponsibility for which he is not completely accountable” (p. 93).

Because he or she has mentally categorized the actions as non-criminal, the embezzler typically offers several common explanations for the crime. The perpetrator often explains his action as borrowing even though he may realize that it will never be repaid. The realization that it can never be repaid leads some to continue the thefts after the non-shareable problem has been solved or has passed. The borrowing continues because it is easy, and he or she can continue to steal (Cressey, 1973).

In the Fort Worth Independent School District (ISD) case, Frank Lozano, the forensic accountant engaged to investigate when district officials began to suspect problems, used the fraud triangle to describe what he found. “In this case, the pressure was the fact that Brooks was running short of money. The opportunity came because there was a lack of controls and because Ingram was head of maintenance. The fraudsters’ rationalization usually comes because they think if they don’t get caught that it is not their fault what has happened. We see that over and over again” (Francis, 2004, p. 36-37).

The Fort Worth case began in 1995 when an assistant athletic director (Tommy Ingram) and a contractor (Raylate Brooks) conspired to overcharge the school district for concrete work authorized under a unit price contract. The purpose of this type of contract is to complete small projects. Once a year, the district issues a request for bids on a set price per unit, such as cubic feet of
concrete. The district then selects a contractor from the bids received, and that company then provides the concrete at the unit price for individual projects in the district during that year. Unit price contracts eliminate the need to use a competitive purchasing process for small projects, for instance a sidewalk or fence, and speeds the completion of those projects. Unit price contracts are not intended for use in major construction like parking lots (Francis, 2004).

Between 1995 and 2000 Brooks submitted false or exaggerated invoices for work at Fort Worth ISD facilities and Ingram, as the assistant athletic director responsible for facilities and then as the director of maintenance for the entire district, certified completion of the work and approved the charges. With the purchase orders and certifications properly completed, the business office paid Brooks. He and Ingram then split the overpayment. The scheme, which eventually resulted in $10 million in fraudulent payments, started when Ingram suggested it to Brooks. Ingram’s non-shareable problem was large credit card debt, but the fraud continued after the debts were paid because the men continued to have the opportunity and had rationalized that no one was being injured by their actions (U. S. Department of Justice, March 2, 2004).

Independently the fraud triangle theory has no preventive use. Understanding the theory leads to an understanding that in order to prevent fraud, actions must occur which prevent the confluence of the three sides of the triangle. The concept of the fraud triangle can shape the efforts of school districts
and contracted auditors to limit or eliminate embezzlement, but this cannot be taken out of the context that fraud is committed by people.

Although the fraud triangle is a useful tool to categorize drivers of fraudulent activities, auditors need to consider an important aspect of people who commit fraud: their character. Individuals bring to organizations elements of their upbringing, culture, and ethical and moral beliefs (Murdoch, 2008, p. 83).

Inherently, the first side of the triangle, a non-shareable problem, is beyond the reach of preventive measures. The other two sides, however, opportunity and the ability to rationalize the problem, can both be addressed by superintendents and boards of trustees. If either of those two sides is disrupted then embezzlement can be prevented.

Every person in a position to embezzle is in a position of trust, and that trust is what provides the opportunity to commit the crime. Most often the person has earned the position of trust through several years of employment or having earned trust at a previous employer. The fact is that most embezzlers are well-liked, experienced, middle aged professionals (McCullough, 1981).

Although the prevention of fraud and embezzlement is important to all government entities, including local school districts, the methods for accomplishing the task are not clearly evident. A review of the literature on fraud prevention provides four major concepts for school leadership to consider. The first is properly written and consistently enforced policy and procedure. Yet good
policy and procedure are worthless without the second concept: active and appropriate application of the policy must be present from management level personnel. The third concept prevalent in literature is the use of audits, which can be external or internal. One particular type of internal audit, the inspector general, is especially noted for use by larger school districts. The concept of ethics appears often in discussions of management and auditing. Since it overlaps both, ethics is included here as a fourth and independent concept since both auditing and management can occur in a non-ethical manner. Murdoch’s statement above, that fraud is committed by people, illustrates the need to go beyond the physical restraints of policy, procedure, and audits to include ethics as a tool in prevention.

Policy and Procedure

In 2000 Paul E. Coggins, former United States Attorney for the Northern District of Texas, wrote an article intended for community colleges urging them to create a compliance program to identify and eliminate embezzlement and fraud related to federal funding. The emphasis of the article was avoidance of qui tam lawsuits that could cost colleges financial penalties, court costs, and possible exclusion from future federal funding if they were to lose in a court action. His recommendations include the minimum requirements documented by the Office of the Inspector General of the United States, Department of Health and Human Services, based on guidelines in the Federal Sentencing Guideline Manual.
The foundation of any compliance program is prevention. Thus the scope of the article’s original focus can be expanded beyond the original intent of eliminating embezzlement and fraud in federal funding for community colleges. This makes Coggins’ recommendation for compliance programs applicable to all publicly funded organizations.

A well-organized compliance plan should include provisions that work collectively to prevent embezzlement and fraud. The following seven provisions form a clear basis for policies written for publicly funded entities:

- Provide notice to employees of the organization’s intent to act in accordance with law
- Avoid incentives connected to purchases, including arrangements for referrals
- Schedule regular internal and external audits
- Establish a method for employees and others to report suspected violations and train employees to use the reporting system
- Investigate and subsequently take proper action including disciplining employees for participation or complicity
- Perform thorough background investigations, including criminal background checks, on all potential finance or business office employees
- Report to appropriate legal authorities all suspicions found to be credible
Although derived from these sample provisions, the organization must tailor its plan to respond to its unique structure and requirements (Coggins, 2000).

Note that the fifth item on Coggins’ list is taking proper actions toward an employee discovered to have violated law, policy, or procedure. School districts like other levels of government and individual government agencies, must employ adequate risk management strategies in order to prevent or minimize the theft of funds. The dismissal of an employee suspected of dishonesty in the workplace is not enough of a deterrent. While this simple reaction remains a common and necessary practice; well conceived, prepared, and planned policies that include legal action and efforts to recover funds should be in place and these policies consistently implemented. Frequently, a lack of policy results in a lack of action, other than discharge. This minimal response may lead the accused employee to believe that consequences are minor, and lead him or her to perpetrate a similar crime against a future employer, often another school district, which is unaware of the previous incident (Smith, 2008).

Many employees are deterred from committing fraud by their own honesty, but an even larger group can be dissuaded by controls built into the district’s policy and procedure. Rules that are clearly stated (policy) and followed without deviation (procedure) establish an attitude that will steer employees’ behavior (Murdoch, 2008).

All schools, like all businesses, have policy and procedure to control the entities’ functions. Those policies and procedures that cover the fiscal dealings
act as internal controls on the actions of business office personnel. They protect the school district’s assets. An example of internal controls is division of responsibilities between two or more employees. Dividing the check writing and reconciliation of checking accounts between two people is an illustration of this concept (McCullough, 1981).

Typically school districts’ boards of trustees will pass a policy concerning fraud prevention and financial ethics expectations. The policy service provided by the Texas Association of School Boards, a service used by approximately 1030 school districts in the state, provides a framework of such a policy for adoption by districts, either unaltered or customized. The sample CAA (LOCAL) policy contains specific wording in regards to fraud, controls, reporting of suspected impropriety and investigation of reports. The superintendent is directed to “maintain a system of internal controls to deter and monitor for fraud or financial impropriety in the district,” and if a fraud is perpetrated then he or she is to “ensure that appropriate administrative procedures are developed and implemented to prevent future misconduct” (Texas Association of School Boards (TASB), 2009).

The CAA (LOCAL) policy also contains this statement,

The District prohibits fraud and financial impropriety, as defined below, in the actions of its Trustees, employees, vendors, contractors, consultants, volunteers, and others seeking or maintaining a business relationship with the District (TASB, 2009).
Following this policy statement is a list of 12 prohibited actions. Other clauses in the policy make statements such as, “Each employee who supervises or prepares District financial reports or transactions shall set an example of honest and ethical behavior …” (TASB, 2009). While this policy provides acknowledgement of the need to prevent fraud, it does very little to actually do so.

Another policy from TASB provides direction as to who is responsible for establishing procedural controls. The superintendent’s duties listed in policy BJA (LOCAL) contains the same wording found in policy CAA (LOCAL) about maintaining internal controls. Detailed statements about those controls occur only in a single policy regarding investments. Policy CDA (LOCAL) states that internal controls must be written to establish authority to invest and withdraw funds (TASB, 2009).

Texas state law does not require that an employee who violated the financial trust involving school funds be dismissed from his job or reported to local law enforcement. The law does require that a superintendent notify the State Board for Educator Certification (SBEC) if an employee is terminated because of illegal actions with respect to school district funds (Tex. Educ. Code 21.006). In embezzlement cases, it is left to the local board of trustees and superintendent to make the decision of providing evidence to the local police or the jurisdiction’s prosecuting attorney. If the board of trustees makes an agreement with the employee to end his employment but not report the matter to
police, a superintendent may find himself or herself in a quandary wherein he or she is required by law to report to SBEC that an employee has been terminated for suspected embezzlement but prevented by board of trustee action from reporting the suspected embezzlement to police or the district attorney.

Perhaps even more unusual is that districts using the TASB recommended policy DH (LOCAL) require employees to self-report their status if they are arrested, indicted, or convicted of crimes involving moral turpitude, which includes fraud (TASB, 2009). This effectively puts the employee in the position of either reporting that they may have committed a crime and being dismissed for the arrest or being dismissed for violating the policy by not reporting it.

Unfortunately, even well-written policy often can make business operations more complicated, more expensive, and more time-consuming. Many well-designed policies are often ignored in order for the business office to function in a more streamlined manner. This experience creates efficiency but also creates opportunity. One opinion seen in many audit reports is to adhere to existing policy (Singh & Kashyap, 2009).

The significance of policy and procedure related to human resource functions should not be ignored. Employing individuals who are of good character helps build a workplace environment that deters embezzlement. Procedures that should be a part of the hiring process include criminal and credit background checks, thorough interviews and reference calls, and verification of certificates
and degrees. Avoiding the addition of moderately qualified or unethical employees will prevent many problems (Murdoch, 2008).

A first step in the staffing process is having a full background check performed on potential employees. Reference checks are important and should not be skipped but can produce only limited responses. Many times references may provide an acknowledgement of employment and little else. In the current litigious era, previous employers are often limited by their own policies as to what they can share. A full background check should include: a criminal background check, preferably through the FBI fingerprint system; a credit check; verification of social security number; driving records; and verification of degrees, certifications, and credentials (McMillan, 2006). Although time consuming and expensive, this type of background check should be strongly considered when hiring positions such as the superintendent, the business manager, payroll staff, and individuals handling large amounts of cash such as the cafeteria manager or stadium ticket manager.

Human resources policies and procedures constructed to prevent embezzlement should include job descriptions that clearly define employee roles and responsibilities. Other possible policies or procedures contain a process for completely vetting individuals before and during employment, a periodic rotating of personnel assignments, and appropriately compensating employees. Properly written, these types of policies can indicate to employees the importance placed on preventing fraud by the school district (Singh & Kashyap, 2009).
A district’s policy should also include statements prohibiting retaliation against whistleblowers combined with a method for employees to report suspect activity they witness or perceive can be critical to discovering embezzlement. Including both the policy and reporting method in employee handbooks is recommended (McMillan, 2006). Because the greatest numbers of frauds are detected after reports from whistleblowers, employees should be provided tools such as secure telephones and mail systems that establish confidence from the employees that they can remain anonymous (Singh & Kashyap, 2009).

The State of Texas provides the type of whistleblower protections recommended. Texas Government Code § 544 provides protections to school employees who report fraudulent actions by the school district or an employee of the school district. An employee may not suffer any employment penalty; such as demotion, termination, or reassignment; directly related to a report made to law enforcement. This information must be posted alongside other employment law postings for employees to see (Tex. Gov. Code). While an employee has the right to file suit if he or she believes that action was taken against him or her as retaliation for reporting possible violations, the law also allows, and most school districts require, that the employee use the grievance process before going to court (policy DGBA). School districts using the TASB authored policy concerning fraud prevention (policy CAA LOCAL) also guarantee that employees reporting suspicious financial activity can remain anonymous at least until law enforcement officials are brought in to investigate (Texas Association of School Boards, 2009).
School district leaders must keep in mind that individuals who commit embezzlement often occupy positions of power. These positions often exert control over the processes, procedures, and investigations meant to uncover or prevent the crime. Because this control allows the perpetrator to interfere with the detection processes, it is not uncommon for a fraud to go undetected and, therefore, unpunished and unresolved (Singh & Kashyap, 2009).

The following list is typical of recommended preventive procedures that should be incorporated into the operations of school districts:

- Independent audits of financial procedures including internal controls
- Requirement for two signatures on all checks
- Separation of accounting and bookkeeping functions
- Required vacations for finance and business personnel
- Bank statement reconciliation by someone other than accounts payable clerk
- Marking invoices “paid” when check or other payment is issued
- Regular inventory of equipment
- Various computer controls such as segregating programmer and operator duties

The purchase of insurance policies to cover employee theft and dishonesty should also be investigated with the districts insurance carrier. The bonding of all employees who regularly handle cash and checks is also recommended (Turpin, 2009).
The Texas Education Agency publishes a document titled *Financial Accountability System Resource Guide* which includes some recommended procedures for districts to implement to deter fraud. Included in the fourth module of the guide are the following:

1. Separation of responsibility for receiving cash and accounting control of cash
2. Establish an audit committee which includes board members
3. Monthly finance reports to the board of trustees
4. Disclosure of relationships between board members, administrators, or other employees and vendors or service providers
5. Control of passwords that provide access to accounting systems
6. Assurances of recording and approval of purchases processes
7. Periodic training in ethics and a district code of ethics

Singled out specifically is the need to control access to hardware and software in the information technology department of school districts. Specific policies and procedures are encouraged to control access to these computer systems that store financial data.

**Management**

People who are successful at committing fraud “all have one primary skill: identifying and exploiting human weakness” (Black, 2005, p. 2). They expose this through the manipulation of people and situations to commit fraud. A working
knowledge of Cressey’s theory is perhaps one of the key pieces of knowledge for managers to possess. Simple observation of employees can often identify potential threats of fraud or embezzlement. Supervisors should look for three classic indicators of potential fraud. Pressure, opportunity, and a capacity to rationalize are nearly always present when embezzlements occur. Employees suffering through difficult financial times, and thus under unusual pressures personally and professionally, often possess the first and third. If opportunity already exists then situations are ripe for problems. While personality tests do little to identify potential embezzlers, one trait many perpetrators often have is the desire to be perceived as perfect (Mintz, 2009).

Good managers must be able to recognize typical factors that induce or entice an employee to commit embezzlement. In a study by Albrecht, Howe, & Romney (1984), the researchers found that nine factors typically motivated or identified the perpetrators of frauds. They listed them in the executive summary as follows:

1. Living beyond their means
2. An overwhelming desire for personal gain
3. High personal debt
4. A close association with customers
5. Feeling pay was not commensurate with responsibility
6. A wheeler-dealer attitude
7. Strong challenge to beat the system
8. Excessive gambling habits
9. Undue family or peer pressure (p. xiv)

The authors of the study also identified typical management problems which provided opportunities for embezzlement. Twelve of the factors are listed in the executive summary and ranked by the frequency in which they occur:

1. Too much trust in employees
2. Lack of proper procedures for authorization
3. Lack of personal investment income disclosures
4. Lack of separation of transaction authority from custody of assets
5. No independent checks on performance
6. Lack of adequate attention to detail
7. No separation of asset custody from accounting for assets
8. No separation of accounting duties
9. Lack of clear lines of authority
10. Department infrequently reviewed
11. No conflict of interest statement required
12. Inadequate documents and records (Albrecht et al., 1984, p. xiv-xv)

Active management of finance staff negates one of the common failings found in organizations that are victims of embezzlement. The attitude that “it happens to other people, not us” allows the embezzler to function unmolested. When a manager develops a professional work environment with employees, that environment bonds the employees to the manager and functions as a
deterrent to criminal behavior. Dishonest employees perceive that management is closely monitoring their work and are, therefore, less likely to attempt a fraud (McCullough, 1981).

Active and appropriate human resources management is another key action needed from leadership. Staffing key positions within the organization is critical to the ultimate goal of preventing embezzlement. Properly following policy and procedures for the hiring process cannot be bypassed.

A unique area of possible concern that management techniques should address occurs when technology staff is involved with the business and finance software. Roberts (2009) points out that with the increasing complexity and increasing use of these software systems places the technology director in an exceptional position to commit embezzlement. Technology staff, typically managed by a high level administrator, has the key information necessary for committing fraud through electronic means. They commonly control two distinct avenues to commit the crime; they manage master user log-in names and passwords, but even more importantly, they can often access the database without entering the system through user identification. In the database a technology staff person can create fictitious users, vendors, invoices, and other necessary documents leading to what appear to be perfectly normal transactions.

In the previous scenario, a business office will typically have a policy that prohibits a single individual from controlling multiple stages of the accounts payable process. This policy provides some comfort for the superintendent and
board of trustees. Unfortunately, they typically entrust the enforcement of the policy to the technology director and staff thus creating a circular path for a perpetrator to be entrusted with catching himself or herself (Roberts, 2009).

Management does not necessarily equate to constant oversight. In fact, there are suggestions that large supervisory staffs can cause more problems than they prevent. The central office bureaucracy of large school districts and accompanying centralized control leads to complicated procedures that leave managers unable to oversee operations and forces employees and vendors to find creative ways around the policies and procedures to accomplish purchases and other tasks in a timely manner. Supervisors fail to properly function in a checks and balances relationship to their employees not from lack of effort but because the employee has worked around the procedure. In this type of situation supervisors are often forced to trust those who directly handle the budget and deal with the vendors (Segal, 2004).

Segal (2004) also suggests that individuals who perpetrate fraud in schools can be classified into two categories. The first group is those employees who set out to steal and the second includes those who intend to help the district but often become tempted by the ability to generate personal gain. Depending on the category, different management techniques have to be applied to prevent theft.

Centralized management based on the principles of scientific management has existed as the norm for school systems in the United States
since the early 20th century. This administrative approach was originally instituted in part to eliminate corruption associated with political control. A professional education manager, or school superintendent, was employed to administer and improve the schools. While the bureaucracy of scientific management is periodically relaxed to allow community or on-site decision making, schools consistently return to the hierarchical structure of strong central administration whenever financial abuse is discovered. Essentially this is the quickest method to meet the public’s desire for fiscal accountability (Segal, 2004).

Prevalent centralized management that becomes efficiency destroying oversight suggests that the remedy is to take a decentralized approach and push financial decision making down in the organization. Proper auditing, internal and external, would have to be in place to prevent abuse where this is implemented (Segal, 2004).

Decentralizing the handling of funds has its own risks, however, and Segal’s warning to incorporate extensive auditing is well founded. In 1999 the Dallas (TX) Independent School District implemented a program in which some district employees were issued a purchasing card (Pcard), similar to a credit card. The intent of the purchasing card system was for small purchases of supplies to be made more efficiently at the user campus level (Coggins, Johnson, and Mendrygal, n.d.). In the 2005 annual external audit of district finances required by state law, the auditors noted that federal grant funds were being used to pay for many of the purchases made on the cards. The auditors included a
warning in their findings that these card purchases were not approved by supervisors and that a repayment of federal grant funds, approximately $2.8 million, might have to be made by Dallas ISD (Dallas Independent School District, n.d.).

In 2006 the Dallas Morning News published several critical reports concerning misuse of the purchasing cards. The district hired a private firm led by former U.S. District Attorney Paul Coggins to investigate the charges of misuse. In the final report they commented,

The Dallas ISD Pcard program was noble in concept but haphazard in its execution. The Pcard program was implemented without adequate and regimented supervisory protocols, and, despite warnings in two internal and one external audit about the weaknesses in Pcard supervision, the few monitoring procedures that were in place were largely ignored.

(Coggins et al., n.d., pp.1-2)

The report also noted the existence of “documented systemic violations of both internal rules (violations of the District’s Pcard manual) and external regulations (expenditures which may not meet the Texas Education Agency’s guidelines regarding the use of federal funds)” (Coggins et al., n.d., pp.1-2).

Monitoring credit card charges is also one of the common errors cited by the New York comptroller after audits of 46 districts. The other common mistakes found by the comptroller’s audits involved cell telephones and business travel. In almost all of these cases the actions cited in the auditors’ reports were not
misuse of funds but inadequate documentation for legal expenditures. The proper documentation recommended by auditors was itemized receipts, phone records, and travel expense reports (Archer, 2005).

While management is primarily the role of the superintendent, school boards should also play a part in preventing embezzlement by helping to promote an environment with high standards. Because the board members are trustees of the schools on the public’s behalf, they are responsible for acting ethically in a supervisory role toward the superintendent’s management. When boards insist on proper employment procedures, detailed contracting practices, or internal auditing, they are not interfering with the management of the district. These actions are a proper reflection of their trustee role. Boards properly exercise their role in management by establishing policy and goals that allow the superintendent to manage the district to meet the expectations of the trustees and by extension their constituents (McAdams, 2004). Exercising proper oversight on the management of the school district does not cross the well documented division of roles between the board and the superintendent.

Boards should not be confused by the division of management and policy into thinking that they should never take an active role in management while avoiding micromanagement. For instance, board members should expect regular financial reports. During a series of audits conducted by the comptroller of the State of New York, one of the findings cited the Roslyn school district board for failing to provide financial stewardship. The board did not receive any regular
information about district finances, and the board took no action when suggestions of improprieties were first made other than to allow the superintendent to investigate without any outside help. Eventually the superintendent was among those arrested and charged with stealing from the district. As a result of the comptroller audits, new state law in New York now requires board members to have training on their financial responsibilities (Archer, 2005).

Auditing

Auditing takes several forms and there is not a basic format that properly conforms to the requirements of every district. The needs and structure of the district must dictate the design of the auditing program. Auditors can be an employee of the district or an outside accounting firm; in fact, many entities use a combination in their auditing program.

Financial audits of school districts provide two determinations. First, the audit determines the accuracy of the accounting records including cost of operations, cash flow, and financial position. Second, the audit determines if law, policy, and procedure have been followed in the expenditure of funds (Mikesell, 2003).

Reality is that some auditing occurs without overt action or even knowledge of the district leadership. The first line of defense for all entities is the employees. Detection of incidents is multifaceted, but a heavy reliance must be placed on reporting by co-workers in an organization. Colleagues often are the
first to become doubtful of the accuracy of financial reports and records. Consequently they must be encouraged to report concerns. Whistleblowers were the first to detect the problems in the high profile corporate fraud cases at Enron and Worldcom (Smith, 2008). As noted earlier, it is important to safeguard whistleblowers through policy.

Special purpose auditing can sometimes lead to the discovery of indirectly related problems. The Grapevine-Colleyville Independent School District (GCISD) discovered this in the summer of 2010. GCISD hired a law firm to audit and investigate allegations of school district equipment being used for private purposes by three employees. In the course of the audit, the district also discovered that discrepancies existed in payroll records of employees supervised by the three men being investigated for the misuse of equipment. The results of the initial findings were provided to the district attorney for prosecution, and this new discovery will eventually be given to prosecutors as well (Jenkins, 2010).

Investing in auditing is similar to the purchase of insurance. Whether the auditors are internal or external, they are a form of risk management. Failure to utilize auditors amounts to neglect (McCullough, 1981). Obviously superintendents do not want a reputation for negligence, nor are school board members reelected if they are negligent in the oversight of the superintendent.

**Auditing Mandated by Texas law**

Texas school districts are required to have audits conducted each year. Texas Education Code (TEC) § 44.008 requires that every district have its
financial records audited by a certified public accountant. This mandated audit must occur annually subsequent to the end of the district’s fiscal year. The completed audit is submitted to the Texas Education Agency (TEA) within 150 days following the end of the fiscal year. The submitted document is reviewed by the agency’s audit division. If, upon review, the audit includes a report of violation(s) of criminal law, the commissioner is required to report those findings to “the appropriate county or district attorney and the attorney general” (TEC § 44.008 (e)).

Section 44.008 (b) states that guidelines for this annual audit are established by the State Board of Education. However, the State Board has delegated the task to the Commissioner of Education. In Texas Administrative Code, Title 19, Chapter 109.41 the commissioner has adopted by reference the Financial Accountability System Resource Guide (FASRG) to serve as the rules for financial operations of Texas school districts.

Module 4 of the FASRG is devoted to auditing requirements. The guidelines include reconciliation with guidelines established for government agencies by the American Institute of Certified Public Accountants (AICPA) and United State Government Accountability Office (GAO). The type of audit required annually is a financial audit and not a performance audit. Financial audits as defined in the module are intended to be a “reasonable assurance” that the district is honestly reporting its “financial position, results of operations, and cash flows” (p. 3). Important to the scope of this study, the definition of a financial audit
also states, “the school district’s internal control over financial reporting and safeguarding assets is suitably designed and implemented to achieve the control objective” (TEA, 2010, p. 3).

In addition to this annual financial audit of all fund types and all accounts managed by the district, some districts must have an audit performed specifically on federally provided funds. The threshold for this requirement is $500,000 in federally provided funds during a fiscal year.

Although the law and the commissioner’s rules stipulate the frequency and type of audit that is required, it is the purview of each districts’ board of trustees to select the auditor. No guidance regarding the selection of auditors is provided. Section 4.3 of the FASRG states, “The process should consist of re-engageing the prior year auditor or seeking new auditors through the request-for-proposal process” (TEA, Module 4, p. 12). Following this vague statement concerning the selection process, the guide says that a board is not obligated to use either a request for proposal or request for qualifications. In the module’s appendix a sample request is provided but the text clearly declares that the use of a request and the format of a request are local choices. Whatever method is used for selecting the audit firm, the district contracts with the auditor through an engagement letter that binds both parties. The engagement letter also defines the scope of work to be completed by the auditor and the access the district will provide. Paramount in the agreement is that the audit firm operates independent of control by the district.
In providing guidance the FASRG clearly defines what is considered financial fraud when auditing school district financial statements.

*Fraud* results from *intentional* acts that result in a misstatement either from *fraudulent financial reporting* (alteration of records or documents, omission of transactions/information, etc) or *misappropriation of assets* (embezzling receipts, stealing assets, or paying for goods/services not received) (TEA, Module 4, p. 41).

This section, with its italicized emphasis, supplies understanding of what auditors must report as fraud when issuing their findings.

The module provides procedures for the independent auditors to follow when conducting the legally mandated annual audit. Items to be audited include:

- Determination of appropriate use of Foundation School Program funds
- Review of district policies and compliance with policies regarding topics such as nepotism and conflict of interest
- Review of the district’s depository contract
- Review of contracting and purchasing procedures
- Review of expenditures, gifts, insurance, construction, student fees, and personnel salaries
- Determination of the appropriate use of the accounting system
- Determine if the conditions for fraud—pressure, opportunity, and ability to rationalize illegal actions—exist in management or employees
Though not complete, this list provides a general understanding of the nature of the required external audit.

After creating this long list of required items, the guidelines stipulate that the auditor must obtain a sufficient understanding of the entity and its environment, including internal control, to assess the risk of material misstatement of the financial statement due to error or fraud, and to design the nature, timing, and extent of further audit procedures (TEA, Module 4, p.19).

This stipulation creates freedom for auditors to customize the study of the district.

Even after providing this freedom, the commissioner’s rules offer suggestions of what types of things relevant to deterring fraud that an auditor should consider when seeking to understand the district’s structure. These include audit committees, internal auditors, and the organizational hierarchy. The rules also suggest understanding “laws, statutes, and regulations governing the general operations of the school district” (TEA, Module 4, p. 37).

When writing the annual audit report, all instances of criminal actions must be included. Further, the auditors are required to provide an opinion of the district’s internal control mechanisms deemed insufficient for protecting school funds. The auditors are instructed to gain specific insight concerning the weaknesses from school officials and any changes, in actions or procedure, that are planned to address the problems. Text in this section encourages auditors to
report favorably when a district is proactive in taking action to deter fraud (TEA, Module 4).

Section 4.2.1 of the FASRG stipulates that a district’s board of trustees may require a more extensive scope of work to be performed during the annual audit. It also states that a board may contract for additional audits, defining both purpose and scope. These additional audits may be either financial audits or performance audits.

Performance audits are designed to “provide an independent assessment of the performance of a government organization, program, activity, or function” (TEA, Module 4, p.3). Thus a district can gain information which would provide a specific perspective on the performance of the finance/business office. A board of trustees specifically concerned about safeguarding public funds or investigating suspected problems can contract for an external performance audit or hire internal auditors to study operations. In some cases, boards are compelled to initiate these types of audits because of information reported by news media. The Dallas ISD’s decision to have an audit performed specifically on the purchasing card program was a result of reporting by the Dallas Morning News. The newspaper used information gathered through open records requests to report possible misuse of the cards.

External Auditing

Other than co-workers, skilled professional auditors are the most likely to discover a theft. Trained auditors can discover problems through a review of
documents but they use more scientific techniques as well. One of those
techniques used by auditors suspecting fraud is analysis of data for examples of
unanticipated numerical patterns. Thorough investigation of numeral patterns
often discovers duplicate transactions, even dollar amount transactions, and
finding unusually large ratios when comparing similar expenses, all of which are
signals of possible fraud. Fraudulent travel reimbursements are particularly
susceptible to this type of analysis. Year to year comparisons of payments to
individual vendors or of recurring expenses also provide detectable evidence of
theft (Coderre, 1999).

While the external audit function is specifically described in the *Financial
Accountability System Resource Guide* previously covered, a recommendation
often made in other sources is only vaguely mentioned in that document.
Seeking bids for audit services periodically and having a mandated change of
external auditors, a frequent practice in the private sector, are suggested as a
means of maintaining auditor independence. That independence is a key to
preventing collusion between auditors and finance personnel that work together
and get to know one another over a period of years (Blann, 2010).

Computer software is available to schools which will search the financial
records for clues. These software packages search for things like payments that
fall just below the threshold set for purchase orders or patterns of vendors
regularly paid similar amounts. The software acts as a constant auditor (Dessoff,
2009). Known as continuous controls monitoring software (CCM), these constant
Auditors use testing algorithms to detect unusual transactions. They function by testing all transactions, not just a sample as traditional auditors would. The CCM software is normally hosted by a third-party at a remote location, thus eliminating danger of interference by either finance or technology staff. Unfortunately even the most sophisticated software packages can only detect a fraud; they cannot discover who is committing it (Roberts, 2009).

One recommendation concerning external auditors is that there should be an effective link between the auditors and the governing board. Auditors have regular contact with the administrators and managers of the school districts, and that connection can easily become the only avenue for most or all communication. Board members must remember that the auditors are contracted by the board and work for the board, not the superintendent or business office. To create the direct link, a subcommittee of the board should meet periodically with auditors and have a method of contact other than through the superintendent or other school district employee (Blann, 2010).

**Internal Auditing**

When confronted with the need for internal audits and investigations, districts must choose what model to use. Many choose to utilize an internal auditor subordinate to the superintendent while others choose an inspector general answering independently to the board of trustees. Large districts are better equipped to use the inspector general model because of its cost, and many have chosen to create inspector general offices.
Inspectors general first appeared in the United States’ largest urban school systems in 1990 when the New York City schools created an independent investigation office followed soon by Chicago and Los Angeles. These independent auditors answer directly to school boards and often have law enforcement authority. The inspectors general were an enormous change from previous internal auditors because they issue public reports, make recommendations for punitive actions against employees, and proffer suggestions for reform (Segal, 2004). After financial scandals were exposed by audits performed by the New York comptroller, all districts in that state are required to have an internal auditor to perform ongoing examinations of financial practices (Archer, 2005).

In Miami-Dade County, Florida the inspector general position is unique in that it was created by the local school board but operates under the direction of the state department of education and reports to the department. This unique structure provides further separation and independence for the auditor. The inspector general works with local branches of the state judicial system to investigate anything or anyone in the jurisdiction, Miami-Dade County Schools (Colgan, 2004).

Texas law addresses the issue regarding to whom internal auditors answer. Texas Education Code § 11.170 which became effective in May, 2006 has two provisions:

1. The board of trustees shall select the internal auditor; and
2. The internal auditor shall report directly to the board. The law clearly expects the superintendent and other administrators to have no authority over an internal auditor. Nowhere in Texas law is there a provision requiring a school district to employ an internal auditor.

Another method of performing an internal audit is to create an internal audit committee. This committee should be small but should include a member of the board of directors or trustees along with staff members. The board member’s presence on the committee will provide the board with deeper confidence in the business office operations and the committee itself (McMillan, 2006).

A variation on the audit committee is to include community business leaders on the committee. This option has been instituted in Wake County, North Carolina; Katanah-Lewisboro, New York; and Jeffco, Colorado, schools. The districts use the community members not only as internal auditors but also to tap their expertise because in each case the members are local business owners (Dessoff, 2009).

Another internal audit method is the use of the same sophisticated electronic methods mentioned earlier in the section on external auditing. The software packages that scour the district’s finance data for discrepancies can be purchased, installed, and utilized on a constant basis in the background while the business staff is operating in real time. While this seems like a nearly foolproof method which will provide comfort to superintendent and board alike, they should remember that an employee must still monitor the reports generated by the
auditing software system. As noted in the section on management, if the employee committing fraud is the technology director the problems detected by the software may be destroyed or ignored. The solution is the continuous controls monitoring software described earlier (Roberts, 2009).

The Roslyn, New York Case

In 2004, a large fraud case involving school funds was discovered in Roslyn, New York. Over an 8-year period, this 3,300 student district suffered an $11 million loss to embezzlements largely committed by its top administrators and personnel in the business services office. When the Nassau County District Attorney finished the investigation, 29 people were identified as having participated as either perpetrators or beneficiaries of the fraud, and 6 would be convicted of criminal actions (Huefner, 2010).

The fallout from the Roslyn fraud has resulted in changes in state law concerning oversight of New York school districts. In 2005, the New York legislature passed the Fiscal Accountability Act dramatically altering the requirements concerning auditing of school funds. The Act provides that:

- At a minimum of once every five years a school district must request bids for external audit contractors
- An audit committee must be established in the district
- An internal auditor must be hired by the school board; the internal auditor may be an employee or contractor
- School board members must receive financial training
These provisions along with increased scrutiny from the state comptroller's office have brought greater awareness concerning protecting school funds (Huefner, 2010).

This type of state mandated action concerning school funds is not without precedent in Texas. The 74th Legislature passed the Public Funds Investment Act (PFIA) in the spring of 1995, focusing on the protection of funds invested by local governments including school districts. Although not as comprehensive in scope as the New York law because of its narrow focus on investments, the PFIA contains similar provisions. School districts are required by the law to have:

1. Written investment policy and investment strategy
2. Investment officer(s) complete periodic investment training developed from a set of specified and standardized curriculum strands
3. Investment reports, including content specified in the law, must be made to the board of trustees on a quarterly basis (Texas Government Code 2256)

The PFIA points to the ability and willingness of the state government in Texas to intervene when school districts have deficiencies in their financial dealings.

Ethics

Audits are only as good as the skills and knowledge of the auditors. The Financial Accountability System Resource Guide, quoted extensively in the section regarding auditing, includes instructions that auditors need to assess the integrity of school district leaders. This clearly subjective judgment is difficult but
essential when considering the risk of fraud. The nature of ethics is that it overlaps and works in tandem with auditing, management, and policy to prevent fraud.

In 2007, West Virginia University (WVU) published a report that addressed the need to revise curricula for future accountants. This report specifically outlined a curriculum format to address the issue exposed in the scandals at Enron, Worldcom, and other corporations. The model curriculum’s first objective includes instruction in ethics. The topic is further divided into two sub-topics. The first is an understanding of business ethics but the second is a “code of ethics so that those entering this specialized area are clearly informed and understand ethical expectations” (West Virginia University, 2007, p. 19). The accountants trained with this new curriculum will not be relegated to auditing corporations but will also be the next wave of auditors for public schools.

Harvard Business School established the Program in Leadership, Ethic, and Corporate Responsibility in 1987 to provide focus on teaching ethics to Master in Business Administration (MBA) students. The program eventually initiated both a curriculum for a series of nine independent class meetings early in the Harvard MBA degree program, and curriculum integrated into other courses to teach ethical decision making. In a study of students entering the MBA program, researchers found that students had “a strong sense of interpersonal accountability” At the same time those students “do not articulate a vision by which they believe they could positively affect our collective life” (Parks,
The conclusion is made that graduate schools must teach independent decision making frameworks or these future leaders will be unable to provide ethical leadership. This conclusion is contrary to what the author terms the conventional wisdom that moral thought is developed by the age of 10 or 12 years and thus not altered by experiences at the graduate school level (Parks, 1993).

The design of Harvard Business School’s course of study begins with a nine session program that exposes students to concepts of responsibility, effectiveness, values and analysis, respect for law, consequences, and the existence of these themes within all aspects of the management. The overarching goal for these nine sessions is to set a framework for discussions as students follow their complete degree program. The remainder of the ethics emphasis is the integration of leadership and ethics throughout the curriculum of each course in the MBA. This integration is intended to create case studies that provide the opportunity for ethical decision making (Piper, 1993).

Emphasizing ethics is not limited to the training of new accountants and auditors in regards to the prevention or discovery of embezzlement in schools. As the West Virginia University study pointed out, a code of ethics provides an outline of expectations to members of a profession. Numerous codes of ethics exist to guide professional educators, including those whose primary responsibility is the management of school district finances. The bylaws of the Texas Association of School Business Officials includes two separate articles
related to ethics. Article 15 of the Code includes statements concerning honesty, integrity, and obeying law. Article 16 is a list of Standards of Conduct which includes specific expectations for conduct of the member’s role in the business/financial operation of his school district (Texas Association of School Business Officials, n.d.).

The context for school business administrators is not their district alone but a combination of the practices in their district, the state, and the profession of school business administration as a whole. Like other professions effective school business employees must have an ethical framework from which to base their decision making. This base must be learned and embraced early in the individual’s employment and career in order for him to rely on it when a quandary arises. “To be effective when confronted with a confounding ethical dilemma, administrators should know in advance how they would react, ethics trainers say” (Colgan, 2004, p. 13).

Ethical decision making takes place anytime a moral dilemma exists but the decision maker cannot rely solely on his own values. The individual must incorporate the rights and expectations of others when making the decision. This does not mean that decisions must be acceptable to others involved; it simply means that the decision maker understands the context and circumstances (Kallio, 2003).
Creating an Ethical Culture

School district administrators need to clearly and succintly communicate organizational ethics. Employees immersed in a clear ethics program are more conscious of likely dilemmas that may arise in their school business office environment. “To promote legal and ethical conduct, an organization should develop an organizational ethics program by establishing, communicating, and monitoring the ethical values and legal requirements that characterize its history, culture, industry, and operating environment” (Ferrell, Fraedrich, & Ferrell, p. 170). Many new employees working in schools are transitioning from private or corporate settings and must be made aware of the scrutiny the public places on school business practice. Accompanying that scrutiny is a need to establish and keep the public’s trust. The purpose is to create what Rushworth Kidder (2008) calls a “culture of integrity” in the organization. This culture values and exhibits honesty, responsibility, respect, fairness, and compassion. The public recognizes and wants this type of public institution because it realizes what is “right.”

Perhaps the most important step in establishing an ethical work environment is the attitude of the leadership. Clearly stated expectations for principled conduct partnered with effective controls lead employees to understand that organization leaders’ commitment to honest business practices. Management, policy, and procedures effectively grow out of the attitude expressed in word and action by leadership (Murdoch, 2008).
The actions of the superintendent and board president from the Houston Independent School District (HISD) provide an illustration of this concept of ethical work environment and attitude from leadership. Terry Grier, HISD Superintendent, and Greg Meyers, HISD Board of Trustees President, spent September 8, 2010, in a Houston courtroom where a former HISD accounting supervisor was being sentenced after being convicted of an embezzlement related crime. The employee, guilty of stealing $171,000 of school district funds, was sent to prison for eight years. Both men had earlier encouraged the court to sentence the former employee to the maximum 20 years in prison. Meyers was quoted in The Cypress Times saying, “The HISD Board of Education will not tolerate any type of fraud or misappropriation of funds, resources, or assets that would otherwise be used to support the district’s mission of educating Houston’s children” (“Fraud will not,” 2010). These actions demonstrate to the school district’s employees and to the public how important a strong ethical organization is to the leaders.

Where ethical leadership does not exist, the danger of financial problems will increase. The Corporate Executive Board found that a 20% increase in financial wrongdoing was accompanied by “a 5 percent decline in frontline employee perceptions of senior management’s commitment to integrity.” The survey also showed “that business units with the weakest cultures have experienced five times the amount of misconduct as those with the best” (Turpin, 2009).
Superintendents need to be mindful of their own actions when creating a workforce that makes ethical choices. Exhibiting values and guiding staff members, individually or as groups, to ethical decisions is effective when working to establish the ethical framework for the business office. Caution, however, is vital because a superintendent dictating values, rather than articulating them, will often find a resentful staff resisting his leadership and consequently a less cohesive organizational culture (Kidder, 2008).

How do superintendents and boards create this desired atmosphere without dictating or mandating? Paula Mirk (2009), the director of education at the Institute for Global Ethics, writes about five critical attributes that leaders should exhibit:

- Leaders must understand and make decisions based on their own morals
- Leaders must be able to share their values and adhere to them during adversity without becoming arrogant or sanctimonious
- Leaders must know their organization and the individuals that make up the organization. They must understand the history and the experiences that guide the decision making
- Leaders must model the ethics in non-crisis situations
- Leaders must show trust in the organization and delegate decision-making to foster the ethical climate
A foundation for making ethical decisions and, therefore, an important part of any organization’s ethics program, is one role for the codes of ethics established by many associations, as well as, those established by state legislation such as the one created by the State Board for Educator Certification in Texas. Colgan (2004) comments on these codes as being positive but then adds that they are inherently weak in one aspect, “few administrators pay much attention to these codes until something goes horribly wrong” (p. 15).

This typical situation emphasizes the need to prepare employees in ethical standards from the beginning of their career and employment. The educational aspect is the strength of the codes of ethics because they do have persistent weakness. Very few codes have a method of enforcement so consequences are weak or non-existent. Even the ones adopted under state law or by state regulatory agencies often have little affect because of lax enforcement provisions or enforcement provisions which are poorly worded (Pardini, 2004).

The other major weakness related to codes of ethics occurs when organization leadership does not practice the values set forth for employees nor do they integrate the concepts in their district’s daily operations. Significant actions must be taken in a manner obvious to all that the district will be intolerant of unethical behavior. At times the superintendent and board of trustees need to terminate or dismiss an employee who is not following the expected standards (Ferrell et al., 2005).
A frustrating factor related to the concept of ethics training is that a trained employee can still act in an unethical manner thinking that he or she is not susceptible to temptation and his or her ability to rationalize misdeeds. The belief in one’s own ethics leads to justifications of the inappropriate actions (Black, 2005). This idea is Cressey’s third point; in this case, the perpetrator rationalizes his or her actions because of a belief in his or her own ethics.

**Ethics Instruction in Graduate School Programs**

Ethics instruction is one area that appears to be more actively pursued in the literature related to public administration than in the literature of educational administration. The beginnings of the field of public administration were an outgrowth of public reaction to corruption within the politicized atmosphere confronting civil servants before 1900. The patronage system particularly prevalent in city governments fostered the pendulum swing to professional municipal managers along with reform of city government structure. Thus ethics is essentially a part of the original core of thought concerning professional public administration. This is true because of the application of judgment and discretion inherent in the positions held by graduates of public administration schools. This foundational core was nearly abandoned but later re-emphasized by public administration educators during the decade following 1988. That year the National Association of Schools of Public Affairs and Administration (NASPAA) curriculum standards included expectations that graduate school programs in public administration would include an ethics curriculum (Bowman, 1998).
Beginning in 1988 the number of graduate programs complying with the NASPAA standard increased rapidly. Most of them offered an entire course and a quarter of those required a course in ethics for graduation. Various studies have been inconclusive and even contradictory on the issue of whether these courses have affected the graduates once they began their public administration career. Some subjects of the studies have indicated that their ethics course has impacted their professional lives while others indicated that their own morals and values along with the professional code of ethics were more responsible for their ethical standards (Menzel, 1998).

Part of the confusion in study results may stem from the fact that concepts taught in the professional ethics courses are not new to the majority of students. In fact, the courses are not meant to present new material; rather they are intended to strengthen individuals’ value systems within the context of their chosen profession. The courses tend to bolster the desire of the new professional to be deliberative with the framework of ethics when encountering challenging professional situations. These findings indicate an inconclusive impact of stand-alone ethics courses; however, the effectiveness of the other method for delivering ethics that must be discussed (Menzel, 1998).

Like the Harvard model of combining independent ethics instruction with interwoven strands of ethics case studies, the Masters in Public Administration (MPA) students experiencing coursework related to finance, policy, leadership, and a variety of other topics will typically encounter some ethics issues within the
syllabi of those other courses. Many faculty members believe that the deepest impact will occur in this method of consistent exposure through strands woven into a variety of courses. Whether taught in an ethics course or as strands in the broad curriculum, the subjects of Menzel’s study encouraged an increase in the amount of ethics instruction. They particularly recommended the use of real life scenarios from practitioner/lecturers, case studies, and other interactive instructions (Menzel, 1998).

Within the arguments for teaching ethics awareness, whether at the graduate degree level or at the certification level, either through baccalaureate degrees or through professional organizations like the Texas Association of School Business Officials, the focus of instruction must be discussed. One of the options is to teach ethical actions rather than ethical theory. Letcher (1998) calls this “doing ethics.” This focuses on teaching reflective questioning as a tool for public administrators and uses students’ experiences as a primary source for instructive discussion. Complicating the ethics issue for future administrators is that their workplaces often value the accomplishment and completion of work as more important than the method of completing it. One argument for teaching reflective questioning is that the method is applicable in nearly every decision that must be made. This practicality focus harkens to the respondents of Menzel’s study that encouraged development of instruction based on experiences.
The dilemma is central to the ethical behavior. Placed in challenging circumstances, how will the administrator make decisions? Creating instruction that develops the students’ awareness of choices and allows them to face challenges in a nonjudgmental educational structure provides training for stressful situations. Whether it is manifested in an ethics course or in a strand within other courses does not matter as much as facing the dilemma in simulations that force students to be practical observers of consequences to their decisions (Letcher, 1998).

The possibility exists that, while teaching ethics is perceived by most practitioners and professors as important, the topic will never become a part of the standard curriculum. Again while the literature that speaks to this fact is largely from the public administration and not the education administration field, the obstacles will be the same. The barriers that exist have been outlined as follows:

1. Too many required courses already
2. Lack of available teaching tools (syllabi, teaching exercises, reading materials)
3. Lack of clarity in the PA [public administration] profession about ethics
4. Lack of clarity in the field of ethics
5. Lack of faculty interest
6. Lack of connection between teaching ethics and ethical behavior
7. Lack of student interest
8. Lack of qualified instructors

9. Lack of financial resources


While all these barriers may exist, the author continues to argue that the topic is too important to ignore and in her opinion ethics should not be relegated to either a single course or strands within the syllabi of existing courses. Rather, both methods should be incorporated into the degree program (Hejka-Ekins, 1998). This concept is essentially the same conclusion to which the Harvard Business School came as was previously discussed.

Summary

The literature clearly points toward preventing fraud and embezzlement with a blended approach of four distinct actions. Two of the four concepts are concrete measures: establishing appropriate policy with accompanying procedures and establishing an effective audit program. The other two are more subtle measures related to the behavior of district leadership. Superintendents should accept the role as an active manager in the district business and finance activities in order to help prevent internal theft. Finally, an ethical workplace attitude is essential to link all of the other prevention pieces together.

This study to establish a record of the current actions taken by Texas school districts to prevent financial fraud focused on these four measures. Although these measures are not the only steps that districts can use to combat
embezzlement, by focusing on these areas the study can establish whether districts are taking seriously the prevention of criminal violations of financial trust.
CHAPTER 3

METHODOLOGY

The prevalence of embezzlement and fraud within society as a whole and within local governments such as school districts shows no signs of decreasing. The personal financial difficulties that many individuals are confronting during the current recession could lead to an increase in fraudulent behavior. According to Box (1987), individuals “experiencing reduced standards of living, and not being prepared to put up with it, might turn to tax evasion, embezzlement, and fraud as a means of supplementing their dwindling incomes” (p. 34).

Numerous sources of information exist that seek to explain what methods should be used to deter the crime of embezzlement, and a few sources provide some evidence that those methods have been effective in discovering such crime in local governments. However, no evidence was found which documented what preventive measures are currently practiced in Texas school districts. This study sought to provide an examination of existing practices.

Research Design

In the effort to create a record of this data, the research perspective chosen was quantitative with a descriptive, cross-sectional design. Quantitative research focuses on the collection of facts and then analysis through various statistical descriptions. It allows for a numerical view of reality (Gall, Gall, and Borg, 2003). The collection of data at a single point allows the researcher to use
the numerical view of what is fact at that point in time. Cross sectional is another term often used to describe this single point in time research (McNabb, 2008). Cross sectional methodology was particularly suited for this research study because of a large number of respondents and because the model allows for a variety of types of analysis depending on the independent variable used (Sullivan, Rassel, & Berner, 2008). This advantage also allows for further analysis using the collected data or a survey of the same nature in the future to measure change.

Descriptive design allowed for reporting the frequency of use of each of the four most widely recommended methods for fraud prevention: policy and procedure, management, auditing, and ethics training. Additionally, it allowed for reporting the percentages of schools using the various methods within geographic regions and according to school district size.

Research Question

This study sought to ascertain the following: what measures are currently taken by the leadership, boards of trustees and superintendents of schools, of Texas school districts to prevent embezzlement? In order to answer the research question, the study concentrated on the following areas of inquiry:

- Have districts adopted local policies and procedures to prevent embezzlement?
- Are districts utilizing external audits, including expanding beyond that required by state law, and utilizing internal auditing systems?
- Have superintendents and other administrators adopted management practices to prevent embezzlement?
- Have districts established or adopted a code of ethics for employees handling money and keeping financial records?
- Have districts established a requirement for ethics training for employees and have districts established or adopted ethics training programs for employees?
- Have districts established or adopted other techniques to deter employee theft?

Collection of Data

Data collection was accomplished through a survey questionnaire with questions constructed from the most commonly recommended strategies discovered through the review of literature. The survey included both closed and open-form items. The closed-form items were built from the recommended fraud prevention methods found in the literature. The open-form items permitted respondents to indicate strategies incorporated in their districts that were not included in the closed-form items. A pilot of the survey was conducted with five former superintendents currently employed at Region 10 Education Service Center. Changes, including the elimination of one question and the rewording of several other questions to create clarity, were incorporated into the survey based on comments made by pilot participants.
The survey was divided into 5 parts. The first part included 7 questions which established demographic differences among respondents to allow comparison by size of district, regional location of district, tenure of the superintendent in the district, ethics instruction received by the superintendent, and experience of the superintendent. An eighth question requested the county/district number assigned by the Texas Education Agency (TEA) to each district; this number was used to control for duplicate submissions from districts and eliminate those superintendents that had previously responded from the list of those sent a second request to complete the survey.

The second part of the survey included 11 closed-form questions regarding policies and procedures commonly adopted by government entities as preventive measures. This section also included one open-form question allowing respondents to identify any policy or procedure maintained in their districts that was not encompassed by the previous questions and that they considered to be important for preventing embezzlement.

The third, fourth, and fifth parts followed the same pattern. The management practice and auditing sections each included 6 closed-form and 1 open-form questions. The ethics training section included four closed-form and one open-form questions. Throughout the survey an opportunity to provide clarifying or explanatory information was provided on 9 of the closed-form questions. The final survey was distributed online through a survey tool which collects and stores responses.
The survey was distributed to the superintendents of all independent school districts and the lone municipal school district in the State of Texas via email. A cover letter explaining the purpose of the study and the link to the survey was sent to each superintendent using the database of superintendent email addresses maintained by the TEA on its website. Prior to distributing the survey, a request was sent to the Executive Director of each of the 20 Education Service Centers in Texas asking them to send a message to the superintendents in their regions encouraging participation in the survey.

After the initial distribution of the email requests, two distinct sets of returned or rejected emails were developed. Some returned messages were generated by automated systems stating that the original email was suspected to be spam. These automated systems requested an acknowledgement containing an assurance that the original message was legitimate. A larger number of messages were returned as undeliverable or rejected because of invalid email addresses. Each of the invalid email addresses was verified by searching the school districts’ websites to obtain the correct address and the message resent to the corrected address.

Ten days after the distribution, a follow-up communication was emailed to those superintendents who did not respond to the original request. This second communication again requested their participation and provided the link to the online survey. The survey was closed and no additional responses were accepted 21 days after the original distribution.
Five superintendents responded that the online survey would not allow them to proceed past the initial section of questions, those building the demographic information. An attempt was made to have the online survey company correct any errors causing this issue. When the company could not identify the problem, those five superintendents were asked if they would be willing to respond on a paper version which was emailed as an attachment. Four of the five mailed or faxed completed surveys.

All of the data received from survey responses, both electronically and on paper, were entered into an Excel® spreadsheet (Microsoft, Redmond, WA, www.microsoft.com) for analysis. Surveys which were not completed past the entry of demographic data, Section 1, were eliminated from the analysis.

Analysis of Data

Data received via the survey were tabulated to establish the total number of districts using each recommended prevention technique. The percentage of districts using each prevention technique was also calculated.

The collected data were then disaggregated to determine if various relationships existed regarding the use of each prevention method and (a) the size of district, (b) the geographic location of the district, (c) the superintendent’s years of experience as a superintendent, (d) the superintendent’s length of tenure at his current school district and (e) the amount of ethics training received by the superintendent.
District size subgroups were established using the University Interscholastic League (UIL) classification of the district’s high school (Class A through Class 5A). Districts with multiple comprehensive high schools were all classified for comparison with the districts containing a high school in class 5A. This modification was necessary since the multiple high school districts all have high schools classified as 4A or 5A. Those with two 4A schools, such as Wylie Independent School District (ISD) with 11,305 students, are as large as or larger than districts with a single 5A high school, like Coppell ISD with 9,915 students.

Geographic location was determined by the education service center region in which the district lies. The service center regions were combined into six areas dividing the state. The geographic division is shown in Table 1.

Responses to the open-form questions were compiled and presented as written with no editing. Similar responses were grouped together to allow ease in reading and understanding.

Summary

This study was designed to provide local school district leadership and statewide policymakers with information about preventing fraud and embezzlement. Secondly, the data gathered and recorded should provide the various groups the ability to understand how school districts currently attempt to prevent fraud. Lastly, the results can be used to make decisions regarding changes at various levels of governance in their approaches to preventing fraud in local school districts.
Table 1

Geographic Regions

<table>
<thead>
<tr>
<th>Area of the state</th>
<th>ESC Regions included</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coastal Bend and Rio Grande Valley</td>
<td>1(Edinburg), 2(Corpus Christi), &amp; 3(Victoria)</td>
</tr>
<tr>
<td>Southeast Texas</td>
<td>4(Houston), 5(Beaumont), &amp; 6(Huntsville)</td>
</tr>
<tr>
<td>Northeast Texas</td>
<td>7(Kilgore), 8(Mount Pleasant), &amp; 10(Richardson/Dallas)</td>
</tr>
<tr>
<td>Northwest Texas</td>
<td>9(Wichita Falls), 14(Abilene), 16(Amarillo), &amp; 17(Lubbock)</td>
</tr>
<tr>
<td>Central Texas</td>
<td>11(Fort Worth), 12(Waco), &amp; 13(Austin)</td>
</tr>
<tr>
<td>West and Southwest Texas</td>
<td>15(San Angelo), 18(Midland), 19(El Paso), &amp; 20(San Antonio)</td>
</tr>
</tbody>
</table>
CHAPTER 4
RESULTS OF DATA COLLECTION

This study sought to ascertain the following: what measures are currently taken by the leadership, boards of trustees and superintendents of schools, of Texas school districts to prevent embezzlement? This chapter provides a summary of the data collected toward that purpose.

In order to determine the scope of actions utilized to prevent thefts by employees, the superintendent of every independent and municipal school district in the state was asked to complete the survey. The survey was divided into four specific areas of preventive actions gleaned from the review of current literature on fraud preventions to determine recommended practices. Those areas include policy and procedure, management practice, auditing, and ethics training.

Population and Sample

The population studied included all independent and municipal school districts in the state of Texas. To adequately formulate comparisons and draw reasonable conclusions based on size of the district, the geographic location of the district, and the experience of the superintendent; it was beneficial to survey the entire population. While many districts have common characteristics, to reduce the population to a preselected sample might have necessitated
exclusion of certain districts with unique situations and thus alter the accuracy of the findings.

While using the entire population of school districts as the sample is an example of convenience sampling, it is preferred in this case because the whole population is also an accessible population and, therefore, the population validity will be high (Mertens, 2005). This fact, along with the steps previously outlined in the section on data collection, increase the accuracy levels of the data collected. Therefore, the sample is all responses submitted from the whole population.

Charter schools were not included as a part of the study because of their unique business management structures. Each possesses a unique board of directors and administrative arrangement defined by the charter issued by the state. Every independent and municipal school district in Texas has an elected board of trustees which exercises the right to tax a defined population of residents granted them by the state, charter schools do not possess taxing power.

Organization of the Data Presentation

Due to the nature of this study, the presentation of the data is the focus of the study and it begins by providing a comprehensive outline of the demographic information gathered in the sample. Following the demographic breakdown are sections dedicated to presenting the findings regarding the four areas of commonly recommended fraud prevention measures. Each of these sections concludes with the reporting of any common themes found in the statements.
respondents made to the open-form questions. Any notable disaggregation of responses concerning each area is made within that reporting section.

Survey Response Demographics

Of the 1,031 independent and municipal school districts in Texas, superintendents from 354 responded to the survey request. This represents a 34% response rate. Because they included answers to demographic questions only and did not provide answers to any questions in the four sections of the survey dedicated to the areas of preventive measures, 15 of the returned surveys were eliminated from analysis. This reduced the responses to 339 completed surveys and created a 33% return rate of usable responses. These 339 completed surveys were evaluated and analyzed.

The districts responding were classified using four different demographic groups. They were classified by size, geographic area of the state, years of experience of the superintendent, and by the number of districts the superintendent had served. The first two data groups were created in order to provide comparison of a district with similar districts. The second two data groups were created in order to compare districts with similarly situated superintendents.

For comparison based on size, districts were separated based on the size of the district’s largest high school using the University Interscholastic League (UIL) assigned classification for 2010-2012. One modification was necessary to establish the size of the districts with multiple comprehensive high schools. There are 93 districts in Texas with multiple high schools, and the largest high school in
each of these districts is classified as either 4A or 5A. In 21 of those multiple high school districts, the largest high school has a student membership classified as a 4A by the UIL and four of those districts responded to the survey. Because these districts have at least two high schools and, therefore, are comparable in size to the districts with a single 5A high school they were combined with the larger classification (5A) for the comparisons.

Two additional modifications had to be made to the classifications. At the other end of the scale from the 5A districts are districts with no high school; 55 of those currently exist in the state and 18 responded to the survey. These districts with no high school were classified as a separate group. The last modification was to classify South Texas Independent School District, which is a specialized district created to provide magnet school opportunities to secondary students in the Rio Grande Valley. The district overlaps other districts and contains multiple high schools and a junior high school that draw students from those districts. It was classified as a multiple high school district. To view the number of districts which responded to the survey in each classification refer to Tables 2 and 3.
Table 2

Size of Districts

<table>
<thead>
<tr>
<th>UIL size</th>
<th>Number of districts</th>
<th>Number of districts responding</th>
<th>Percentage of districts responding</th>
</tr>
</thead>
<tbody>
<tr>
<td>5A</td>
<td>127$^a$</td>
<td>32$^a$</td>
<td>25%</td>
</tr>
<tr>
<td>4A</td>
<td>90$^b$</td>
<td>26$^b$</td>
<td>29%</td>
</tr>
<tr>
<td>3A</td>
<td>169</td>
<td>72</td>
<td>43%</td>
</tr>
<tr>
<td>2A</td>
<td>218</td>
<td>75</td>
<td>34%</td>
</tr>
<tr>
<td>1A</td>
<td>372</td>
<td>116</td>
<td>31%</td>
</tr>
<tr>
<td>No HS</td>
<td>55</td>
<td>18</td>
<td>33%</td>
</tr>
<tr>
<td>Total</td>
<td>1031</td>
<td>339</td>
<td>33%</td>
</tr>
</tbody>
</table>

*Note.* Sources are University Interscholastic League 2010 classification and Texas Education Agency 2008-2009 Academic Excellence Indicator System. $^a$=includes multiple high school districts where the largest high school is 4A. $^b$=multiple high school districts are removed.

Table 3

Multiple High School Districts

<table>
<thead>
<tr>
<th>UIL size of largest high school</th>
<th>Number of districts</th>
<th>Number of districts responding</th>
<th>Percentage of districts responding</th>
</tr>
</thead>
<tbody>
<tr>
<td>5A</td>
<td>72</td>
<td>19</td>
<td>26%</td>
</tr>
<tr>
<td>4A</td>
<td>21</td>
<td>4</td>
<td>19%</td>
</tr>
<tr>
<td>Total</td>
<td>93</td>
<td>23</td>
<td>25%</td>
</tr>
</tbody>
</table>
In order to compare districts geographically, they were grouped by their respective education service center region and then further grouped by combining regions into areas of the state. Each area included either three or four regions. The number of districts in each area ranged from a low of 119 districts in the Coastal Bend and Rio Grande Valley area, to a high of 224 districts in the Northeast Texas area. The Coastal Bend and Rio Grande Valley area had the lowest percentage of districts respond, and the Northeast Texas area had the highest percentage of respondents. Table 4 provides geographic disaggregation of responses.

Table 4

Districts by Geographic Area

<table>
<thead>
<tr>
<th>Area</th>
<th>Number of districts</th>
<th>Number of districts responding</th>
<th>Percentage of districts responding</th>
</tr>
</thead>
<tbody>
<tr>
<td>Costal Bend and Rio Grande Valley</td>
<td>119</td>
<td>21</td>
<td>18%</td>
</tr>
<tr>
<td>Southeast Texas</td>
<td>139</td>
<td>37</td>
<td>27%</td>
</tr>
<tr>
<td>Northeast Texas</td>
<td>224</td>
<td>98</td>
<td>44%</td>
</tr>
<tr>
<td>Northwest Texas</td>
<td>200</td>
<td>59</td>
<td>30%</td>
</tr>
<tr>
<td>Central Texas</td>
<td>211</td>
<td>72</td>
<td>34%</td>
</tr>
<tr>
<td>Southwest Texas</td>
<td>138</td>
<td>52</td>
<td>38%</td>
</tr>
</tbody>
</table>
Survey responses were also divided by the number of years the respondent had served as a superintendent and the number of districts in which the respondent had served as a superintendent. Sixty-two percent or 210 of superintendents responding have served in only one district. Seventy-seven (23%) had served in two districts and 52 (15%) in three or more districts.

In regard to the amount of time they had served as a superintendent, the respondents were very experienced with over half having served for six or more years in the position. One respondent did not answer the question but the results of the other 338 are shown in Table 5.

Table 5

*Years of Service as a Superintendent*

<table>
<thead>
<tr>
<th>Experience</th>
<th>Number of respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 years</td>
<td>15</td>
</tr>
<tr>
<td>1-2 years</td>
<td>53</td>
</tr>
<tr>
<td>3-5 years</td>
<td>100</td>
</tr>
<tr>
<td>6-14 years</td>
<td>117</td>
</tr>
<tr>
<td>15+ years</td>
<td>53</td>
</tr>
</tbody>
</table>

Within the demographics section of the survey, two questions were asked of the superintendents concerning their opinion of their own district’s effort to prevent fraud and if they had taken part in changing the methods used by their current district or a district they previously served. When asked, “Do you believe
the district you currently serve is following an appropriate fraud/embezzlement prevention plan?" 307 of the 334 respondents answered affirmatively.

Three possible answers were provided to the question asking about their own experiences in changing the fraud prevention plan at districts they served as superintendents. One hundred sixty-four said they had never created or replaced a plan while serving as a superintendent. Of the remaining respondents, 35 said they had created or replaced one at a previous district and 154 have created or replaced one at their current district. In 15 instances, the superintendent has created or replaced a prevention plan at both his or her current district and a previous district.

Survey Responses Related to Policy and Procedure

Good policies and procedures were consistently cited in previous literature as one of the four major methods of deterring embezzlement. The first three questions in this section sought to obtain a large-scale perspective by simply asking whether districts had adopted general policy and procedure. The remaining questions sought out those districts that were using specific procedural techniques such as background checks on prospective and current employees, methods for reporting suspected fraud to administrators, division of business office duties, and mandatory vacations.

The Texas Association of School Boards (TASB) Policy Service, used by all of the school districts in Texas, provides an anti-fraud policy codified as CAA(LOCAL). Only 16 of the districts have not adopted that policy as written by
TASB. Six of those districts have developed and adopted their own policy in place of CAA(LOCAL). Ten districts reported having no anti-fraud policy.

A larger number of districts stated that they had no written procedures designed to prevent embezzlement. Of the 332 answering the question, 101 or 30.4% said no procedures existed. When the totals are broken into subgroups by size, 30 of the 32 (94%) largest districts have written procedures in place while only 7 of the 18 (39%) districts with no high school had them. Tables 6 and 7 show the number of districts that have written procedures, organized by size of district and by location in the state.

Table 6

*Size Distribution of Districts with Written Procedures*

<table>
<thead>
<tr>
<th>Size of district</th>
<th>Have written procedures</th>
<th>Do not have written procedures</th>
<th>% with written procedures</th>
</tr>
</thead>
<tbody>
<tr>
<td>No high school</td>
<td>7</td>
<td>11</td>
<td>39</td>
</tr>
<tr>
<td>A</td>
<td>76</td>
<td>38</td>
<td>67</td>
</tr>
<tr>
<td>2A</td>
<td>50</td>
<td>24</td>
<td>68</td>
</tr>
<tr>
<td>3A</td>
<td>52</td>
<td>18</td>
<td>74</td>
</tr>
<tr>
<td>4A</td>
<td>16</td>
<td>8</td>
<td>67</td>
</tr>
<tr>
<td>5A</td>
<td>30</td>
<td>2</td>
<td>94</td>
</tr>
</tbody>
</table>
Table 7

Geographic Distribution of Districts with Written Procedures

<table>
<thead>
<tr>
<th>Geographic area</th>
<th>Have written procedures</th>
<th>Do not have written procedures</th>
<th>% with written procedures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coastal Bend and Rio Grande Valley</td>
<td>13</td>
<td>8</td>
<td>62</td>
</tr>
<tr>
<td>Central Texas</td>
<td>48</td>
<td>23</td>
<td>68</td>
</tr>
<tr>
<td>Northeast Texas</td>
<td>68</td>
<td>27</td>
<td>72</td>
</tr>
<tr>
<td>Northwest Texas</td>
<td>35</td>
<td>23</td>
<td>60</td>
</tr>
<tr>
<td>Southeast Texas</td>
<td>28</td>
<td>9</td>
<td>76</td>
</tr>
<tr>
<td>Southwest Texas</td>
<td>39</td>
<td>11</td>
<td>78</td>
</tr>
</tbody>
</table>

After these generic questions about fraud prevention policies and procedures, the superintendents were asked questions regarding more specific policy and procedure items. Co-workers are often the first to suspect fraud so the survey asked if the district had an established method for employees to report suspicious activity. The follow-up question asked if the reporting method allowed employees to make reports anonymously. Two thirds (220 of 332) of the districts responding had established a reporting system. Three quarters of those with a system or half of the total respondents allowed for anonymous reports.

Human resources practices can be a first line defense in preventing fraud. The number and type of background checks performed prior to hiring a potential
employee can sometimes eliminate future problems. The survey requested that respondents identify the methods used in their district from a list of five common checks. They were then given the opportunity to write in any technique that was not included. Districts identified using four of the five tactics in very large numbers. Credit history checks were used by almost no districts. Table 8 shows the numbers using various methods.

Table 8

*Number of Districts Using Various Background Check Methods*

<table>
<thead>
<tr>
<th>Background check</th>
<th>No of districts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Criminal records</td>
<td>334</td>
</tr>
<tr>
<td>Credit history</td>
<td>34</td>
</tr>
<tr>
<td>SBEC certification</td>
<td>281</td>
</tr>
<tr>
<td>College degree verification</td>
<td>247</td>
</tr>
<tr>
<td>Reference check</td>
<td>303</td>
</tr>
</tbody>
</table>

Five superintendents identified other methods they used in the pre-employment checks. Two indicated doing fingerprint checks on potential employees, one district noted doing pre-employment drug testing, and one district checked all certifications granted by the Texas Association of School Business Officials. The fifth response was “small town – we know our applicants pretty well already.”

The survey also asked whether districts did periodic checks on current
employees. Only 45% of the districts did any sort of check on current employees no matter how long the person’s tenure was with the district.

Three more questions related to personnel policy and procedure were also built into the survey. Two critical bookkeeping related jobs in the business offices of school districts are check writing and the reconciliation of check records to bank records. If these two responsibilities are performed by the same employee, then many embezzlement schemes can be hidden in false or duplicate payments. When asked if their district split these two jobs, 56 superintendents responded that they did not. This situation was most prevalent in the smaller school districts. Of the 56 districts where check writing and reconciliation were combined, 50 were in the three smallest size categories. See table 9 for the disaggregation by district size.

Table 9

*Size of Districts not Separating Responsibilities*

<table>
<thead>
<tr>
<th>Size of district</th>
<th>Responsibilities not split</th>
</tr>
</thead>
<tbody>
<tr>
<td>No High School</td>
<td>5</td>
</tr>
<tr>
<td>A</td>
<td>33</td>
</tr>
<tr>
<td>2A</td>
<td>12</td>
</tr>
<tr>
<td>3A</td>
<td>5</td>
</tr>
<tr>
<td>4A</td>
<td>0</td>
</tr>
<tr>
<td>5A</td>
<td>1</td>
</tr>
</tbody>
</table>
Two common practices, both designed to periodically change the individual employee performing each task, were explored next. Similar to the previous question about dividing responsibilities in the business office was a question about rotating responsibilities among employees. In this case 260 (78%) surveys indicated that the district did not rotate responsibilities. The other question asked if the district mandated that employees in the business/finance office take vacation and, if so, how long the mandatory vacation was. Only 21 (6%) districts require a vacation. Eight of the districts require 10 consecutive days or two weeks of vacation for business office personnel and five of the districts require a week or five consecutive days. Three districts provided the following answers, “240 days of work on annual calendar approved by superintendent,” “business officers and staff do not take the same days off as each other,” and “variable.”

The final closed-form question in this section was included in order to gauge what effect training mandated by the state legislature has on local district policy and procedure. The Public Funds Investment Act (PFIA) requires the investment officers at every school district to be trained every two years. The survey question asked if districts had changed local investment policy or procedure as a result of the required training. No changes were made to investment policies or procedures in 107 of the 330 districts that answered the question. The other districts (223) were asked to categorize the changes they
made as being completely new procedures, significant changes, or minor changes. Tables 10, 11, and 12 display the categorized the changes.

Table 10

*Size of Districts Identifying Changes Resulting from PFIA Training*

<table>
<thead>
<tr>
<th>District size</th>
<th>Completely new policy</th>
<th>Significant change</th>
<th>Minor change</th>
</tr>
</thead>
<tbody>
<tr>
<td>No high school</td>
<td>1</td>
<td>0</td>
<td>11</td>
</tr>
<tr>
<td>A</td>
<td>1</td>
<td>10</td>
<td>58</td>
</tr>
<tr>
<td>2A</td>
<td>0</td>
<td>5</td>
<td>47</td>
</tr>
<tr>
<td>3A</td>
<td>0</td>
<td>8</td>
<td>38</td>
</tr>
<tr>
<td>4A</td>
<td>1</td>
<td>3</td>
<td>13</td>
</tr>
<tr>
<td>5A</td>
<td>0</td>
<td>5</td>
<td>22</td>
</tr>
</tbody>
</table>

Table 11

*Location of Districts Identifying Changes Resulting from PFIA Training*

<table>
<thead>
<tr>
<th>Location</th>
<th>Completely new policy</th>
<th>Significant change</th>
<th>Minor change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coastal Bend and Rio Grande Valley</td>
<td>0</td>
<td>2</td>
<td>13</td>
</tr>
<tr>
<td>Central TX</td>
<td>0</td>
<td>7</td>
<td>37</td>
</tr>
<tr>
<td>Northeast TX</td>
<td>3</td>
<td>7</td>
<td>57</td>
</tr>
<tr>
<td>Northwest TX</td>
<td>0</td>
<td>4</td>
<td>32</td>
</tr>
<tr>
<td>Southeast TX</td>
<td>0</td>
<td>6</td>
<td>24</td>
</tr>
<tr>
<td>Southwest TX</td>
<td>0</td>
<td>5</td>
<td>26</td>
</tr>
</tbody>
</table>
Table 12

Superintendent Experience in Districts Identifying Changes Resulting from PFlA

Training

<table>
<thead>
<tr>
<th>Superintendent experience</th>
<th>Completely new policy</th>
<th>Significant change</th>
<th>Minor change</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 years</td>
<td>0</td>
<td>2</td>
<td>7</td>
</tr>
<tr>
<td>1-2 years</td>
<td>2</td>
<td>7</td>
<td>23</td>
</tr>
<tr>
<td>3-5 years</td>
<td>0</td>
<td>5</td>
<td>62</td>
</tr>
<tr>
<td>6-14 years</td>
<td>0</td>
<td>11</td>
<td>71</td>
</tr>
<tr>
<td>15+ years</td>
<td>1</td>
<td>6</td>
<td>25</td>
</tr>
</tbody>
</table>

The open-form question at the end of the policy and procedure section of questionnaire had 34 responses. The open-form question asked superintendents to share any policy or procedure technique used by their district which was not part of a closed-form questions. Four common themes emerged from the open-form question.

- Activity funds were mentioned in six of the responses
- Cash handling practice appeared in five responses
- Purchases requiring multiple approvals also appeared five times
- Internal auditors were discussed in four surveys

The actual responses are included verbatim in Appendix B and are numbered 1 through 34.
Survey Responses Related to Management

Management practices for preventing fraud can be difficult to separate from procedure because the practices are often written into manuals, job descriptions, or other documents. Procedures often require actions by supervisors also. These actions are taken to simply enforce a process defined in procedure. Management differs because it requires actions by supervisors that necessitate the use of judgment or discretion.

The first question in the management section of the survey asked if written evaluations were performed on all business/finance office personnel. More than a quarter (87 of 331) of the respondents said that they did not conduct evaluations. In the two largest classifications of districts every district reported conducting evaluations. The disaggregation by district size is shown in Table 13.

Table 13

Size of Districts Not Conducting Evaluations of Business Personnel

<table>
<thead>
<tr>
<th>Size District</th>
<th>No written evaluations</th>
</tr>
</thead>
<tbody>
<tr>
<td>No High School</td>
<td>11</td>
</tr>
<tr>
<td>A</td>
<td>40</td>
</tr>
<tr>
<td>2A</td>
<td>25</td>
</tr>
<tr>
<td>3A</td>
<td>11</td>
</tr>
<tr>
<td>4A</td>
<td>0</td>
</tr>
<tr>
<td>5A</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>87</td>
</tr>
</tbody>
</table>
A major concern for districts’ management teams is the computer software systems that handle all of the finance and business operations. All of the files, records, and even the operating software itself require the use of multiple passwords to protect the system from misuse. The ability of a person to commit fraud increases if he or she has password access to the entire system. The survey found that in a large number of districts, 207 of the 331 respondents or 63% of them, at least one person had password access to both the accounts payable files and checking account records.

The next two questions were included to gain understanding of situations in which arrangements exist that allow purchases to be made outside of normal central office management control. Superintendents in only 17 districts say that purchases can be made outside the normal approval process. In the very next question, however, 205 indicated that credit cards or purchasing cards were used in the district for supplies and equipment while only 127 do not use them. Table 14 provides a breakdown of who can authorize purchases using credit cards.

Table 14

Credit Card Use Approval

<table>
<thead>
<tr>
<th>Approver</th>
<th>Number of districts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Superintendent</td>
<td>71</td>
</tr>
<tr>
<td>Central office administrator</td>
<td>88</td>
</tr>
<tr>
<td>Cardholder's supervisor</td>
<td>28</td>
</tr>
<tr>
<td>Cardholder</td>
<td>18</td>
</tr>
</tbody>
</table>
The final two questions in the management section concern the board of trustees’ role. In 310 of 332 districts, the board receives a monthly update of district finances. The other 22 districts’ boards receive a finance report less frequently. Three receive them once a year, one semi-annually, and 18 are provided a report quarterly. More important is the level of information that is provided. Every district uses the fund accounting system so superintendents were asked at what level of reporting was provided in the report to trustees. A fund report would provide the most basic balances of the general fund and any special funds used such as interest and sinking. The function level reports would provide the information passed on general use such as instruction, maintenance, transportation, or administration. Object level reports normally provide both the fund and function but also separating it out to personnel, supplies, utilities, etc. Finally, if the board receives item information it would identify the expenditure by fund, function, object, and item designation such as general fund, instruction, supplies, and special education. A size of district breakdown of this question’s answer set is in Table 15. While fund and function is the most common for board reports, the second largest group is those with fund, function, object, and item.
Table 15

*Level of Accounting Detail in Board Reports*

<table>
<thead>
<tr>
<th>District size</th>
<th>Fund only</th>
<th>Reports fund and function</th>
<th>Reports fund, function, and object</th>
<th>Reports fund, function, object, and item</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>44</td>
<td>130</td>
<td>41</td>
<td>117</td>
</tr>
<tr>
<td>No high school</td>
<td>0</td>
<td>8</td>
<td>1</td>
<td>9</td>
</tr>
<tr>
<td>A</td>
<td>19</td>
<td>33</td>
<td>12</td>
<td>50</td>
</tr>
<tr>
<td>2A</td>
<td>9</td>
<td>29</td>
<td>3</td>
<td>32</td>
</tr>
<tr>
<td>3A</td>
<td>6</td>
<td>34</td>
<td>12</td>
<td>20</td>
</tr>
<tr>
<td>4A</td>
<td>3</td>
<td>13</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>5A</td>
<td>7</td>
<td>13</td>
<td>9</td>
<td>2</td>
</tr>
</tbody>
</table>

The open-form question in this section concerning management received 17 responses. Three themes appeared in those written responses.

- Audits, specifically internal auditors and coordination with external, were mentioned as a management tool five times
- Three comments expanded on what reports the board received, one receives a monthly cash flow report while the other two receive the check register for the month
- The need for multiple levels of approval for purchases
Survey Responses Related to Auditing

In the open-form questions in the two earlier sections, superintendents pointedly made comments about the importance of the auditing functions. The questions in this section covered three distinct areas of auditing. One set of questions probed the legally required external audit, a single question concerned auditing software, and the last set was investigating internal auditing.

The first question asked if the district chose to expand the scope of its legally required annual external audit which must be performed by a certified public accountant. Overwhelmingly the districts choose not to expand the audits. The response from 295 of the 322 was that the scope did not extend past that outlined by the Financial Accountability System Resource Guide. The 27 districts that did expand their audit chose to extend the scope to the following areas:

- Activity funds
- Booster clubs
- Federal funds
- Federal stimulus funds

Two indicated that they would expand the audit by periodically requesting a forensic audit or other specialized audits.

Complementing the question about whether districts expand the external audit beyond legal requirements is a question of how often districts change
auditors. Superintendents were asked how the decision to change firms is made and had three options for answering. Nearly two-thirds (207 of 321) of the responses said that the district had not changed auditors in more than five years. Those that have changed firms indicated that in most cases the decision is made by the board at irregular intervals. Only nine respondents said their district had a policy mandating that the district would change auditors after a set number of years. Six districts indicated a policy required change every three years. Two districts had a 5-year window and one a 6-year window for required change.

If the external audit is critical to districts efforts to prevent embezzlement, then they must be prepared to act on recommendations or suggestions that the auditors present in the management letter. Management letters are separate from the audit report and normally contain concerns the auditors have that do not rise to the level of a finding that must be included in the audit report itself. The letter is provided to management, and not the board, because the auditor suspects that without intervention a future audit report may need to include a finding. Thirty-six superintendents indicated that their district had received an advisory in the past three years.

Those districts that received an advisory were asked to explain what remedial actions, if any, were taken as a result. Five simply responded that they had complied with the auditor’s suggestion. Most of the other responses, which are collected in Table 16, could be grouped as changes to procedure or
management practice paralleling the first two commonly recommended areas of embezzlement prevention.

Table 16

*Changes Resulting from Auditors’ Management Letters*

<table>
<thead>
<tr>
<th>Changes made</th>
<th>Number of districts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Division of employee responsibilities</td>
<td>6</td>
</tr>
<tr>
<td>New superintendent</td>
<td>1</td>
</tr>
<tr>
<td>Added asst. supt. for finance</td>
<td>1</td>
</tr>
<tr>
<td>Added staff to tax office</td>
<td>1</td>
</tr>
<tr>
<td>Activity fund procedures</td>
<td>3</td>
</tr>
<tr>
<td>Credit card procedures</td>
<td>2</td>
</tr>
<tr>
<td>Budget amendment process</td>
<td>1</td>
</tr>
<tr>
<td>Travel purchasing procedures</td>
<td>1</td>
</tr>
<tr>
<td>Purchasing procedures</td>
<td>1</td>
</tr>
<tr>
<td>Bank reconciliation process</td>
<td>1</td>
</tr>
<tr>
<td>Internal control systems (including cash handling)</td>
<td>6</td>
</tr>
<tr>
<td>Cash flow/fund balance policy</td>
<td>2</td>
</tr>
</tbody>
</table>

After the questions regarding external auditing, the survey asked if the district used an auditing software program which continually monitors the district’s financial software for unusual transactions or patterns of transactions. The positive responses were 116 or 35% of the 322 of the respondents. Table 17
shows the percentage of the districts separated by size that indicated having such auditing software.

Table 17

*Size of Districts with Auditing Software*

<table>
<thead>
<tr>
<th>District size</th>
<th>% with auditing software</th>
</tr>
</thead>
<tbody>
<tr>
<td>No high school</td>
<td>28</td>
</tr>
<tr>
<td>A</td>
<td>38</td>
</tr>
<tr>
<td>2A</td>
<td>33</td>
</tr>
<tr>
<td>3A</td>
<td>34</td>
</tr>
<tr>
<td>4A</td>
<td>45</td>
</tr>
<tr>
<td>5A</td>
<td>39</td>
</tr>
</tbody>
</table>

Internal auditing was the topic of the last set of questions in the auditing section. The first question asked if the district employed a professional internal auditor and to whom the internal auditor reported. Thirty-nine districts report having an internal auditor while 285 indicated that they did not have one. When separated by size none of the categories showed a large percentage of districts except those with Class 5A size high schools or multiple high schools. Table 4.17 indicates to whom the internal auditors are responsible, and Table 19 separates the districts with internal auditors by size.
Table 18

*Internal Auditors*

<table>
<thead>
<tr>
<th>Report to</th>
<th>Number of districts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board</td>
<td>21</td>
</tr>
<tr>
<td>Superintendent</td>
<td>11</td>
</tr>
<tr>
<td>Other administrator</td>
<td>7</td>
</tr>
</tbody>
</table>

Table 19

*Size of Districts with Internal Auditors*

<table>
<thead>
<tr>
<th>District size</th>
<th>Number of districts</th>
<th>% of districts</th>
</tr>
</thead>
<tbody>
<tr>
<td>No high school</td>
<td>1</td>
<td>6</td>
</tr>
<tr>
<td>A</td>
<td>10</td>
<td>9</td>
</tr>
<tr>
<td>2A</td>
<td>5</td>
<td>7</td>
</tr>
<tr>
<td>3A</td>
<td>8</td>
<td>11</td>
</tr>
<tr>
<td>4A</td>
<td>2</td>
<td>8</td>
</tr>
<tr>
<td>5A</td>
<td>12</td>
<td>38</td>
</tr>
</tbody>
</table>

The second question about internal auditing asked if the district had an internal audit committee. Only 14 of the respondents indicated that an internal audit committee existed in the district. When asked to identify members of the internal audit committee, 10 districts did so and this information is found in Table 20.
Table 20

Membership on Audit Committees

<table>
<thead>
<tr>
<th>Position</th>
<th>Number of districts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board members</td>
<td>8</td>
</tr>
<tr>
<td>Community members</td>
<td>3</td>
</tr>
<tr>
<td>Superintendent</td>
<td>6</td>
</tr>
<tr>
<td>Administrator other than superintendent</td>
<td>7</td>
</tr>
<tr>
<td>Teacher</td>
<td>1</td>
</tr>
<tr>
<td>Administrator as ex officio member</td>
<td>2</td>
</tr>
</tbody>
</table>

There were six responses to the open-form question at the end of the auditing section. The question asked superintendents to identify auditing efforts which were not part of the closed-form questions in this section. No identifiable theme existed in the responses. The responses are included verbatim in Appendix B and are numbered 52 through 57.

Survey Responses Related to Ethics

The final section of the survey explored the area of ethics. The topic was approached from three points. The first question asked what ethics training the superintendent received, if any, within his or her superintendent certification program. The second question asked whether the district requires ethics training for business office employees. If training is required, a follow-up question asked
who provides the training. The last question asks if district has a code of ethics for business/finance office employees.

Regarding the amount of ethics training the superintendents received in certification programs, 55 answered that they did not remember. Of the other 267 respondents, 47 indicated that they did not receive any ethics training. The 220 that received ethics instruction were asked to describe whether ethics training was included as a strand in a course or a full course and also whether it was in a required or elective course. The information they provided regarding the training is included in Table 21.

Table 21

<table>
<thead>
<tr>
<th>Inclusion method</th>
<th>Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Required course</td>
<td>88</td>
</tr>
<tr>
<td>Elective course</td>
<td>8</td>
</tr>
<tr>
<td>Strand in a required course</td>
<td>120</td>
</tr>
<tr>
<td>Strand in an elective course</td>
<td>8</td>
</tr>
</tbody>
</table>

The question regarding required ethics training found that only 59 of the 322 responding districts had such a requirement. When those 59 were asked who provided the training, the greatest number (48) identified the Texas Association of School Business Officials (TASBO). The second largest reply (18) was that supervisors in the district provide the training. Other districts indicated
that they relied on a private contractor (5), an institution of higher education (1), or another professional organization (3). The other professional organizations were identified as the Texas Society of Certified Public Accountants and the Texas State Board of Public Accountancy. Respondents were allowed to identify more than one provider and 16 of them did. In all 16 cases of multiple answers the district identified TASBO as one of the providers.

The final question inquired whether the district had a code of ethics specifically for the business/finance office employees. The number of districts stating they had an ethics code was 48 or 15%. Twenty-five of those districts used a code created by an outside source such as a professional organization and 23 indicated that they had a code written specifically for the district.

There were four responses to the open-form question at the end of the ethics section. The question asked superintendents to identify anything related to ethics which was not part of the closed-form questions in this section. No identifiable theme existed in the responses. The responses are included verbatim in Appendix B and are numbered 58 through 61.

Summary

The purpose of the study was to ascertain what methods Texas school districts are using to deter fraud and embezzlement. By tabulating the answers from all respondents and then disaggregating them based on the characteristics of size, geographic location, and superintendent experience, the study provides this information. In all cases the summation of all responses provides previously
unknown information. When the data were disaggregated, the size of a district was relevant most frequently. The location and experience of the superintendent had relatively few instances which differed from the whole.

Based on the data there are several techniques which Texas school districts heavily rely on to prevent fraud. Those key methods include the policies written by the Texas Association of School Boards Policy Service, simple criminal history records checks of new employees, and state mandated external audits. There are also a number of recommended techniques that almost no districts use. Very few districts complete credit checks on potential employees, require vacations for business office personnel, or use internal audit committees.

Using the example of the Public Funds Investment Act as a precedent, there does exist the possibility that with training for the superintendent and other key management personnel the state can create change in local prevention practices. State law or a commissioner’s rule requiring superintendents and board members to receive training related to fraud deterrence could result in the adoption of comprehensive prevention plans.

The open-form questions had very few responses and in only the sections on policy and procedure and on management were themes even noticeable. Consequently very little Texas specific knowledge was added to the understanding of common actions taken to prevent fraud.
CHAPTER 5

CONCLUSIONS AND RECOMMENDATIONS

This study sought to ascertain the following: what measures are currently taken by the leadership, boards of trustees and superintendents of schools, of Texas school districts to prevent embezzlement? As a descriptive study the data set collected was used to draw conclusions that allow for understanding the current situation. Consequently, the data can be used in the future for monitoring the success of the current practices and improving prevention. This research was limited by the need to establish a base of knowledge and was limited to calculating frequencies and percentages. Valuable in its own right, the data will gain additional value when accessed for further study.

Certain conclusions can be made from the results and are described below along with recommendations for action. This study was unable to make comparisons to earlier data because none existed. The other limitation on this study was that no conclusions could be drawn as to the success or failure of any of the prevention measures described.

General Conclusions

As reported in the data analysis, superintendents as a group are very comfortable with the current prevention practices in their own districts. While this is not unexpected, the confidence may be misplaced considering the number of prevention techniques that, according to the remainder of the survey indicated
districts are not using. Complacency can occur through lack of knowledge and an attitude that it cannot happen to them. There was further evidence of this mindset when a superintendent made the comment, “small town - we know our applicants pretty well already” when discussing employee background checks.

The data analysis also indicated that on this topic, the district’s location in the state and the experience of the superintendent made little difference in what prevention practices were being used. The only demographic disaggregation that had an effect on prevention was the size of the district. This size variation occurred in the use of written procedures, the evaluation of employees, the use of internal auditors, and the division of responsibilities in the business office. While the latter two may be a consequence of affordability, written procedures and written annual evaluations are reasonable to expect of all districts. The fact that smaller districts use those more infrequently is likely due to less sophistication rather than an inability to cover costs. Further conclusions and recommendations come from analysis of the four commonly recommended prevention concepts found in the current literature.

**Policy and Procedure**

The prominence of the Texas Association of School Boards policy service as the guide for most school districts’ policy meant that the survey question asking about the adoption of policy CAA(LOCAL) was overwhelmingly affirmative. All but 16 of the districts responding to the survey had adopted the TASB policy or adopted a locally written policy. Only 10 districts have not
adopted a policy. Unfortunately much of the wording of the TASB policy is vague and innocuous. The policy states that districts are against fraud, that supervisors should act ethically, and that an employee determined to have committed fraud may be terminated. While all of these statements are true for every district, they are of dubious value for preventing a violation of trust by an employee.

TASB should write a policy with much stronger wording for districts to adopt. The policy should clearly indicate that employees who commit fraud or embezzlement will be terminated and reported to law enforcement. Districts would be better served by definitive language.

Whereas almost all districts have fraud prevention policy, 30% of the responding districts did not have written administrative procedures meant to deter fraud. These guidelines, which outline the district’s plan for enforcing the policy, are crucial for implementing prevention. Based on answers to other questions in the survey, evidence indicates that many districts already perform some of the tasks that would be in the written plan. Writing the procedures would create an understanding for everyone of what techniques the district is using to prevent fraud.

The advent of the fingerprinting requirements for school district employees has had a positive effect on the human resources actions regarding checking potential employees’ criminal histories. Large numbers of respondents noted that they conduct criminal checks, certification checks, and verify both college
degrees and references. Almost no districts, however, complete credit checks on potential finance office personnel.

Considering the district is hiring someone who will be placed in a position with opportunity, the second side of the fraud triangle, why would the administration risk not knowing the applicant’s credit situation? Excessive debt is one of the most common un-shareable problems, the first side of the triangle? The district might have closed two sides of the triangle only leaving an employee to rationalize a crime.

A questionable credit history would not have to automatically lead to rejecting the applicant. Discussing a bad credit report as part of an interview would allow the candidate to explain it and help deter potential problems because the new employee would be aware of the district’s knowledge.

Since these background checks are effective during the employee selection process, there is reason to believe that randomly performing these same background checks on current employees is also an appropriate action for the district. The statewide fingerprint system will notify the district of an employee that is involved in an arrest or adjudicated event, but a periodic certification check and credit check could expose problems or potential problems that would otherwise go unknown.

A large number of districts (83%) reported separating the check writing and bank reconciliation responsibilities among employees. Most of the districts that do not currently use this sensible approach should incorporate it. Other
related responsibilities in the business operation should also be split. Separating accounts payable recording from check writing is another, and using the Fort Worth ISD concrete fraud as an example splitting the contracting for services from the approval for payment of services makes sense. Smaller districts that would find it unreasonably costly to divide responsibilities should follow the example of two districts whose superintendents noted that, because they are a small district, they contract with the regional service center for bank account reconciliation and other aspects of finance. A person employed by the district handles deposits and check writing while the ESC reconciles the bank statement.

Two other procedural concepts that few districts incorporate were rotating job responsibilities periodically among business employees and mandating vacations of sufficient length to require a different employee to perform the person’s job. Districts rotating employee functions made up 22% of the respondents, and a tiny 6% required employees to take vacation.

Cross training employees on each other’s responsibilities provides reasonable assurance that the finance office can continue to function during the absence of an employee whether the absence is anticipated or unexpected. Taking the step of forcing an exchange of responsibilities is then possible and can be used to detect problems.

The recommendations in this section are virtually cost-free. With unique solutions like contracting with the regional service center, even small districts can have multiple people involved in the business office procedures. Writing effective
policy and procedure is also simple to accomplish. Both can have an effect on the safety of the district’s funds.

Management

The management tools outlined are critical to successfully preventing fraud. The policy and procedures involved will only be effective if district administration is enforcing them. Enforcing purchasing rules especially when credit or purchasing cards are involved is crucial. In the survey, 95% of the districts did not allow purchases to be made without approval from a central office administrator. This splits the responsibility of purchasing within policy and budget guidelines between a campus level employee and the central office. It adds a level of security for making appropriate decisions and monitoring the spending of funds.

Unfortunately, the use of credit cards for non-travel purchases was not as tightly controlled. In 205 of the districts (62%), credit cards were used for purchasing supplies and equipment. Only 28 districts indicated that purchases could be made at the cardholder’s discretion while the others required approval from a supervisor. The Dallas ISD purchasing card scandal proved that even with a procedure requiring supervisor approval, the temptation to abuse and the ease of using the cards are great.

For smaller school districts, an oversight in management was exposed. Written evaluations of business office personnel are performed in every Class 4A and Class 5A size district in the study. However, 33% of Class 2A, 34% of Class
A, and 61% of districts with no high school reported that business office employees’ job performance is not reviewed in written evaluations. One possibility is that administrators in these small districts do not know how to evaluate the performance of these individuals and simply need the training and the evaluation tool to begin the process. The Texas Association of School Business Officials is uniquely positioned to provide this training.

A last note about management concerns the computer systems that are now used to manage all financial records. The need to secure these systems should not be overlooked. Technology directors or staff members who have password access to multiple parts of the system such as accounts payable and the check writing functions pose a severe risk. Like the recommendations made in the policy and procedure section, suggestions for improved management of prevention involves more awareness and knowledge than money. Administrators do not need to budget anything to reduce or eliminate the use of credit cards. Neither do they have to budget funds in order to complete a written evaluation of every business office employee.

**Auditing**

In the summary of the data analysis in Chapter 4, it was noted that Texas districts rely heavily on external audits mandated by state law. In fact, superintendents responding to the open-form questions cited the annual audits as being very important in their districts’ prevention measures. These external audits are an important part of detecting fraud, but by their nature they are not
preventive. The mandated audits occur after the close of each fiscal year and will not detect crimes until after the fact. Their sole preventive effect lies in employees’ knowledge that they will occur. Even that effect is lost with the continual use of the same auditor over a period of many years. An astounding 64% of the districts said they had not changed audit firms in the last five years. In that amount of time, district employees have become familiar with both the auditors and their expectations and methods. That kind of familiarity allows employees the opportunity to hide or explain away fraudulent acts more easily.

Internal auditing is essential for prevention because it can regularly analyze the business operations system as activity is occurring during the fiscal year. Thirty-nine districts recognized this fact and indicated that they employ an internal auditor. Hiring an internal auditor means additional expense for the district. For superintendents, who are confident that the district’s prevention plan is working already, this expense may not be added to a tight budget. Fortunately internal audit committees are an alternative that cost nothing.

Among the survey responses were 14 districts that currently use an internal audit committee. The literature concerning such committees suggests that at least one board trustee be a member to allow unfiltered communication between the committee and the board of trustees. A key administrator or staff member should be on the committee to help provide information and explanation as items are reviewed. The inclusion of a business leader from the community can also insert his expertise and provide validity to the process in the eyes of the
community. One example of committee membership from a district responding to the survey included a principal and a teacher. Adding individuals like community members, teachers, and principals creates validity and confidence in the system because they represent stakeholders in the district.

Autonomy is a key factor in the success of all audits, but it is especially true of internal audits. An auditor must be able to provide an unbiased opinion at the culmination of the audit. An internal auditor cannot be effective if he or she feels pressured to avoid, ignore, or minimize any concerns or problems that are discovered. In the case of an audit committee, the collective opinion protects the individual members but when a district hires an internal auditor this issue of independence is critical to the success of the internal audit. The state legislature recognized and addressed this issue by stipulating that only the school board may select an internal auditor, and the internal auditor must report directly to the board (TEC § 11.170). Of the 39 responding districts that employ one, 11 of the internal auditors report to the superintendent and seven answer to an administrator other than the superintendent. Superintendents and board members should be better informed concerning the law and make the necessary adjustment.

Ethics

The first three methods—audits, management, and policy—are all in some manner tangible actions that show intent to prevent embezzlement. The fourth method occurs when leaders work to create an ethical workplace culture evident
to employees. A large number of superintendents responding to the survey indicated that they had received ethics training during their superintendent certification program. Creating an ethical culture takes more than the superintendent receiving training. The board of trustees, the superintendent, and the administrative staff must take steps to communicate a message of ethical behavior in the district.

Two tasks can be incorporated by every district to set the foundation for an ethical workplace. Requiring employees to complete an ethics training course is one of those tasks. The Texas Association of School Business Officials (TASBO) was cited by 81% of the districts that currently require such training as the provider of ethics training to staff. The association is so committed to the concept of ethical practices that it requires every individual seeking to earn one of its certifications to take a full day course in business ethics. The TASBO ethics course is taught at various times during the year and in a wide range of locations. Requiring business office employees to take this course is a beginning step toward an ethical work environment.

The other task related to ethics that can be easily incorporated into the prevention program is a code of ethics. Only 48 districts indicated that they had adopted a code for their business office. The use of a code is not something that will create drastic change, but it does serve as a reminder of what the attitude and expectations are for employees. Whether a district adopts the code created
by TASBO or another professional organization or chooses to write and adopt their own, the effect will be the same.

Recommendations

General recommendations that have statewide impact and need to be addressed on that scale include:

1. Education for awareness of the broad scope of appropriate actions in the four common prevention areas
2. Awareness of the importance of internal auditing
3. Awareness of the language in local policy and the need to write procedures to fulfill policy

Organizations like the Texas Association of School Boards, the Texas Association of School Administrators, and the Texas Association of School Business Officials need to assure that members are provided the opportunity to learn about these issues.

The impact of legally mandated training cannot be underestimated. The Texas Education Agency or Texas Legislature could address these needs if administrators and school boards do not choose self-regulation. The acknowledgement by 68% of respondents that the training required by the Public Funds Investment Act resulted in changes in investment policy and practice illustrates this point.

The conclusions drawn from the study generate a recommendation that has universal impact. Districts individually should analyze their fraud prevention
program to assure they are using the broad perspective that includes all four of the most commonly recommended techniques. Each district has its own focus on prevention but needs to widen the perspective. The first general recommendation listed above is the precursor to districts committing to this self-analysis.

Future Research

The primary purpose of this study was to collect data, and its descriptive design only allowed for answering questions of how many and what percentage of districts use these preventive measures at this time. Further research using this baseline data should be undertaken. School leaders, as well as, legislators and statewide policymakers will benefit from researchers conducting a longitudinal study to provide evidence of change if the recommendations made here are undertaken.

Secondary analysis using the demographic information for more thorough exploration of the impact of size, location, and experience of superintendents might also provide an explanation of why certain prevention techniques are implemented or are not implemented. Finally, a case study research involving districts that are emerging from a case of embezzlement could provide evidence of the success or failure of prevention measures.

The limitations of this study could be addressed in research using this design but adapting the survey for use in charter schools, in other states, and in Texas municipalities. If the only changes made to the survey were those
necessitated by differences in law then the results could be used for comparison to this study’s data.

Summary

The prevention of fraud and embezzlement is a topic many school administrators may wish to avoid. The disgust engendered by these violations of public trust is universal among school board members and school administrators when they read reports of it happening in other districts. At the same time, that disgust may not translate into doing the work necessary to prevent it in their school districts. It does not matter whether the theft was several hundred dollars in cash from basketball game gate receipts or a $10 million fraud like the one in the Fort Worth Independent School District, there are measures that can be taken to prevent it.

The results of this study allow policymakers to compare recommended practices against current practices of school districts in Texas. School district leaders are provided evidence that indicates school districts in Texas are using some of the recommended processes for protecting their funds from employee theft. Additionally, leaders are provided guidance to aspects of their prevention plan where improvements can be made to better protect those funds. Future researchers can draw upon the data generated by this study for comparison to Texas school districts in the future. They can also use the design, modified to suit circumstances, to study school districts in other states and to study charter
schools. The results should aid their understanding of preventing embezzlement in all school districts.
APPENDIX A
SURVEY
1. Survey: Current Fraud Prevention Practices of Texas Schools

This survey instrument was developed by Gordon D. Taylor in order to gather data for the dissertation required for completion of the Doctor of Education degree at the University of North Texas.

Participants are the superintendents of the independent and municipal school districts in Texas. Identifiable data is limited to the inclusion in the survey of each districts’ county/district number. The county/district numbers will only be used to prevent a duplicate submission from any district. All data to be gathered is considered public information.

INFORMED CONSENT NOTICE: This study involves research intended to determine the current measures implemented by Texas school districts to prevent embezzlement. Respondents will be asked to complete the survey instrument online. No sensitive questions are asked of respondents and neither respondents nor their employing district will be identifiable in the study results. The survey should take 15 minutes to complete. No risks are foreseen to the respondents and/or employing school districts. Research results will be beneficial to respondents in determining the extent of preventive measures implemented in his/her district in comparison to those implemented in districts of similar geography, size, and tenure of the superintendent.

Questions regarding this study should be directed to Gordon D. Taylor at gordontaylor@my.unt.edu or XXX-XXX-XXXX. The study is directed by Dr. William Camp, Professor University of North Texas, College of Education, Department of Teacher Education and Administration. The study has been approved by the University of North Texas Institutional Review Board (UNT IRB). Respondents may contact the UNT IRB with questions regarding respondents' rights at 940-565-4346.

Participation in the study is completely voluntary and individuals may refuse to participate without any penalty.
2. Demographic Information

The questions in this section ask for descriptive information about the district and the superintendent.

The term "THE DISTRICT" refers to the school district you currently serve.

1. In which Education Service Center Region is the district located?

2. Does the school district have multiple high schools? (Do not count "alternative" high schools.)
   - Yes
   - No

3. What UIL classification applies to the district’s high school? (If the district has multiple high schools select the classification of the largest school.)
   - 5A
   - 4A
   - 3A
   - 2A
   - 1A
   - The district does not have a high school.

4. Including all districts served, how many years have you served as a school district superintendent? (Include years prior to July 1, 2010. Do not include 2010-2011.)
   - 0 years (2010-2011 is your first year as a superintendent)
   - 1-2 years
   - 3-5 years
   - 6-14 years
   - 15 years or more

5. In how many districts have you served as superintendent?
   - 1
   - 2
   - 3 or more
6. Do you believe the district you currently serve is following an appropriate fraud/embezzlement prevention program?

☐ Yes
☐ No

7. Which statements are correct? (Choose all that apply)

☐ The district I currently serve has created or replaced a fraud/embezzlement prevention plan during my tenure as superintendent.

☐ A district I previously served created or replaced a fraud/embezzlement prevention plan during my tenure as superintendent.

☐ I have not served in a district that created or replaced a fraud/embezzlement prevention plan during my tenure as superintendent.

8. Enter your County/District Number. (ex. 057950) This is for response control purposes only, districts will not be identified in the study results.
3. Questions regarding POLICY & PROCEDURE

The following questions ask you to provide information about your district's current fraud/embezzlement prevention policy and procedures.

The term "THE DISTRICT" refers to the school district you currently serve.

9. Has the district adopted the TASB policy service recommended anti-fraud policy. [CAA(LOCAL)-A policy, update 76, 2005]?
   ☐ Yes (skip to question #11)
   ☐ No

10. If you answered NO to the previous question (#9), has the district adopted a locally developed fraud/embezzlement prevention policy?
   ☐ Yes
   ☐ No

11. Does the district have written administrative procedures (not board policy) designed to prevent fraud/embezzlement?
   ☐ Yes
   ☐ No

12. Has the district established a method for employees and others to report suspected fraud or embezzlement?
   ☐ Yes
   ☐ No (skip to question #14)

13. If you answered YES to the previous question (#12) can an individual report the suspected fraud or embezzlement anonymously?
   ☐ Yes
   ☐ No
14. Does the district perform any of the following background checks on potential finance/business office personnel? (Choose all that apply.)

- [ ] Criminal history background.
- [ ] Credit history reports.
- [ ] State Board of Education certification verification, for certified applicants.
- [ ] Verification of college degrees.
- [ ] Reference calls to previous employers not listed on the application.

Other (please specify)

15. Does the district perform periodic criminal and/or credit history checks on CURRENT personnel in the finance/business office?

- [ ] Yes
- [ ] No

16. Has the biennial training on investment and cash management practices, mandated by the Public Funds Investment Act (Investment Officer Training), affected the district’s cash handling practices?

- [ ] Completely new procedures were instituted due to the training.
- [ ] Significant changes were made due to the training.
- [ ] Minor changes were made due to the training.
- [ ] No changes were made due to the training.

17. Are the check writing and bank account reconciliation functions conducted by two different employees?

- [ ] Yes
- [ ] No

18. Does the district periodically rotate job responsibilities (such as bank reconciliation) among finance/business personnel?

- [ ] Yes
- [ ] No
19. Does the district require each business/finance office employee to take consecutive days of vacation each year of sufficient length to necessitate someone else performing the vacationing employee’s job responsibilities?

☐ Yes (complete box below)

☐ No

If YES (please indicate the required length of vacation)

[Box for input]

20. Are there any policy or procedure techniques not covered by the previous questions which are implemented and used by the district and that you feel are particularly important in the prevention of fraud/embezzlement?
4. Questions regarding MANAGEMENT.

The following questions ask you to provide information about current management practices intended to prevent fraud and embezzlement.

The term "THE DISTRICT" refers to the school district you currently serve.

21. Does the district require written evaluations by supervisors for all business/finance personnel?
   ○ Yes
   ○ No

22. Does any employee have access to or control of master passwords that provide access to finance/accounting computer software for both accounts payable and checking account records?
   ○ Yes
   ○ No

23. Does the district use a purchasing system which allows equipment and supplies typically used on campuses or by support departments to be purchased without approval from a central office administrator?
   ○ Yes (please provide further details below)
   ○ No

   If you answered yes, list the title(s) of employees that can authorize purchases:

24. Does the district use credit cards or purchasing cards for normal supply or equipment purchases (not travel)? If yes, who has the authority to authorize a purchase (card use)?
   ○ No, the district does not use credit cards or purchasing cards for normal expenses.
   ○ Yes, the card holder is authorized to make purchases without any approval.
   ○ Yes, the card holder's supervisor must authorize purchases.
   ○ Yes, a central office level administrator must authorize purchases.
   ○ Yes, only the superintendent can authorize.
25. How frequently does the district’s board of trustees receive financial reports?

- Monthly
- Quarterly
- Semi-annually
- Annually

Other (please specify)

26. At what level of accounting detail is the finance report presented to the board of trustees?

- Fund only (General, I & S, and Special)
- Fund and Function (instruction, administration, transportation, etc.)
- Fund, Function, and Organization (campus or support department)
- Fund, Function, Organization, and Item (supplies, equipment, etc.)

27. Are there any management techniques not covered by the previous questions which are implemented and used by the district and that you feel are particularly important in the prevention of fraud/embezzlement?


5. Questions regarding AUDITING

The following questions ask about the school district’s current financial audit practices.

The term “THE DISTRICT” refers to the school district you currently serve.

28. Does the scope of the district’s annual external audit(s) extend beyond what is required by law [Texas Education Code 44.008(a)&(b)]?
   ○ Yes (please provide details below)
   ○ No
   Other (please specify)

29. In the past three years, has the district received an advisory concerning its internal controls in the Management Letter prepared as part of the external audit?
   ○ Yes
   ○ No

   If yes, what remedial action was taken?

30. How often does the district change audit firms?
   ○ The district has not changed audit firms in more than five years.
   ○ The district changes audit firms as decided by the board but no policy exists.
   ○ The district changes audit firms at an interval’s established in policy. (indicate frequency below)

   Frequency of policy established changes

31. Does the district use auditing software which constantly monitors the district financial software for anomalies that could indicate fraudulent transactions?
   ○ Yes
   ○ No

32. Does the district employ a professional internal auditor? If YES, to whom does the internal auditor report?
   ○ No, the district does not employ an internal auditor.
   ○ Yes, the internal auditor reports directly to the board of trustees.
   ○ Yes, the internal auditor reports to the superintendent.
   ○ Yes, the internal auditor reports to another administrator.
33. Does the district have an internal audit committee?

☐ Yes (please provide additional information below)

☐ No

Please list members, by position, of the internal audit committee (i.e. board member, assistant superintendent for finance, community member, local business representative, etc)

34. Are there any auditing efforts not covered by the previous questions which are implemented and used by the district and that you feel are particularly important in the prevention of fraud/embezzlement?
6. Questions regarding ETHICS TRAINING

The following questions ask about the school district's and superintendent's ethics training.

The term "THE DISTRICT" refers to the school district you currently serve.

35. Did your superintendent certification training program include professional ethics training?

☐ Yes, a complete required course in ethics.
☐ Yes, a complete elective course in ethics.
☐ Yes, a module/strand in ethics within a core course.
☐ Yes, a module/strand in ethics within an elective course.
☐ No
☐ I don't remember

36. Does the district REQUIRE employees in the finance/business office to complete ethics training as a condition of employment?

☐ Yes
☐ No (skip the next question)

37. If you answered YES to the previous question, who provides the training? (Choose all that apply.)

☐ Supervisors in the district (Superintendent, Assistant Supt., Chief Financial Officer, etc.)
☐ Texas Association of School Business Officials (TASBO)
☐ Private contractor hired by the district
☐ Institution of Higher Education
☐ Other (please specify) ____________________________

38. Does the district have a Code of Ethics specifically written for business/finance employees? If yes, is the code locally developed or from an outside source?

☐ Yes, developed specifically for the district.
☐ Yes, developed by an outside source (such as a professional organization or association)
☐ No
39. Is there anything regarding ethics or ethics training not covered by the previous questions which are implemented and used by the district and that you feel are particularly important in the prevention of fraud/embezzlement?
APPENDIX B

RESPONSES TO OPEN-FORM QUESTIONS
Survey questions 20, 27, 34, and 39 were open-form designed to allow respondents the opportunity to provide additional information about fraud prevention actions used in their districts that were not included in the closed-form questions of the survey. All of the responses to these questions are included in this appendix. The responses are recorded without editing.

**Question 20** Are there any policy or procedure techniques not covered by the previous questions which are implemented and used by the district and that you feel are particularly important in the prevention of fraud/embezzlement?

1. Each procedure requires three different people. One to implement or request and two to sign and approve all transactions. Each principal oversees the campus request and two out five people sign off at the district as well as the superintendent.

2. Three people check all cash deposits for activity accounts, game receipts, etc.

3. Yes - the superintendent and assistant superintendent review and monitor all checks each month. All checks are also published for the Board members and community to review at any time.

4. Student Activity Account Management Parent/Booster Organization Fund Management

5. General cash handling policies
6. Teachers with access to activity funds are to turn in cash day of or day after receipt. Food service turns in money daily and are checked by office staff daily.

7. We have an independent accountant come in and periodically look at our books. He serves as our go to guy on adjustments and he works in concert with our auditor but he can give us some direction that our auditor may not be able to.

8. Small district - contracts with ESC12 for reconciliation and other aspects of finance. One person on campus deposits / ESC reconciles.

9. Clean system of checks and balances

10. Training on cash management, diligence in reviewing places where suspected fraud could occur

11. Review by the District's Auditor

12. Our business office has a total of three employees, making internal controls and cross-training for critical functions a challenge, but it IS possible. Don't forget training for boosters and teachers who do fund-raisers--every year, because they forget!

13. multiple approvals required before item is purchased and two signatures on checks

14. District hired full time accountant in the business office for the 2010-11 school year.

15. Superintendent approves every purchase order and expenditure.

16. Gate receipts from sports activities are placed in a depository night drop with an escort from the local police department.
17. Cross training of employees is a must.

18. Every financial report has another set of eyes look at it for accuracy.

19. Check and balances of extra curricular revenue

20. review of external auditors

21. All fund raising activities are required to have two approval signatures, estimated cost and revenue and a recap of actual income.,

22. in connection to question #17 - we only have one person who writes checks and reconciles bank statements. However, check requests have to be 1) submitted by person making request, 2)approved by building administration, 3) verified by business office, and 4) approved by Superintendent. Bank reconciliation is checked and approved by Superintendent.

23. 1)check log transactions recorded in numerical order from check writing through distribution 2) Spread responsibilities through various departments to no less 3 people for check authorization, processing, distributing, and final review.

24. We employ an internal auditor who does periodic reviews on school and district records.

25. Established the Office of Professional Responsibility

26. We have an internal auditor that reports directly to the Board of Trustees.

27. Cross training business procedures for internal controls regarding receipts and disbursements

28. Bank reconciliation reports are reviewed by another employee after completion of the reconciliation each month
29. Our auditors do a rather intensive auditing spot check throughout the district each year and ask very pointed questions giving everyone multiple changes to see where fraud could occur and alsoos report.

30. We are small district. The superintendent approves all PO’s. We depend heavily on the auditors and I ask them to look closely for indicators of fraud. We only have two people in the business office, and one is also the superintendent’s secreatry. Unless there were collusiton by all three parties, fraud would be difficult. The best fraud prevention is hire honest people and then, “Trust, but verify”, Ronald Reagen.

31. One person writes the checks and someone else matches the check to the paperwork to verify amounts, etc.

32. All financial transactions have to be counter signed and approved by multiple persons. All PO requests must be approved by both Superintendent and Business Manager regardless of amount.

33. School card fraud.

34. Sorbaines Oxley Risk Assessment and Iinternal Control Questionnaire (ICQ).

**Question 27** Are there any management techniques not covered by the previous questions which are implemented and used by the district and that you feel are particularly important in the prevention of fraud/embezzlement?
35. Cash flow report monthly to the board that balances with deposits on the 30th of the month.

36. We have an on-going (not just the annual audit) dialogue with our audit firm.

37. ESC is in charge of writing all checks for bills and payroll. No person at the district has access to codes for writing checks.

38. Auditing firm has random employees fill out survey each year regarding knowledge of our procedures to present fraud and embezzlement.

39. Principals approve use of credit cards at the campus levels.

40. Setting clear expectations and procedures about handling cash and making purchases, publishing the procedures on the district website, and holding everyone accountable for following them. This is not just the job of the business office—it's everyone.

41. Three level of approval on all purchases, accounts payable to business manager, and final approval by superintendent.

42. Board still gets list of checks written, to who it is written, amount, and what acct it was coded to....this information is given at board mtgs for the previous month.

43. Routine internal audits

44. All cash handling and purchasing procedures are specifically addresses in Finance Guidelines and procedures manual

45. Internal Auditor
46. Night depository, campus employees do not handle cash for PTA, boosters, fundraisers, etc. Asst. Supt and Director of Finance sign off on each others responsibilities

47. We list every check and expenditure for the board and auditors.

48. Auditor letter

49. Superintendent approves all PO's.

50. Our ESC Data Processing Department can lock and take Master Control of Finance System remotely in any case of suspected impropriety.

51. Regular review of accounts and sign-off procedures with at least two supervisors signatures...

**Question 34 Are there any auditing efforts not covered by the previous questions which are implemented and used by the district and that you feel are particularly important in the prevention of fraud/embezzlement?**

52. Contracting with ESC

53. I believe the ones offered would help a lot, such as different persons doing the reconcile and writing checks. But we are a small district and do not have enough functions to keep another busy. I have been considering hiring a retiree part time to do this.

54. Supt must authorize expenditure over $5000. The board must approve expenditures over $10,000
55. That the leadership be seen (accurately) as thoroughly honest, setting the tone for how the district does business. A superintendent - no matter how large the district - cannot say, "Oh, I don't do the business end ."

56. The Superintendent is a former Business Office official and maintains regular engagement in the Finance System, including monitoring of transactions, critique and modification to business practices, and management of Investment accounts.

57. We use audit LEA to test PEIMS and our financial system. In addition, we use an external auditor to ensure that our system is running correctly...

**Question 39** Is there anything regarding ethics or ethics training not covered by the previous questions which are implemented and used by the district and that you feel are particularly important in the prevention of fraud / embezzlement?

58. Ethics and responsibilities are covered at length in the finance guidelines and procedures manual

59. I think it is important for the superintendent to be ever present in the handling of expenditures and revenue.

60. Required TASBO training after employment, and encouragement to complete levels of TASBO training for certification purposes.

61. The FASRAG guidelines...
APPENDIX C

EXTENSION RESPONSES TO CLOSED-FORM QUESTIONS
Survey questions 14, 19, 23, 25, 28, 29, 30, 33, and 37 were closed-form but provided respondents the opportunity to provide extension of their answer with additional information or clarification to their response. All of the responses to these questions are included in this appendix. The responses are recorded without editing.

**Question 14** Does the district perform any of the following background checks on potential finance/business office personnel?

*Extension opportunity reads: Other (please specify)*

1. Finger print
2. Fingerprinting
3. Pre employment drug testing
4. Professional certifications from TASBO
5. Small town - we know our applicants pretty well already

**Question 19** Does the district require each business/finance office employee to take consecutive days of vacation each year of sufficient length to necessitate someone else performing the vacationing employee’s job responsibilities?

*Extension opportunity reads: If yes (please indicate the required length of vacation)*
6. 5
7. 1 week
8. 10 days
9. 10 days
10. 10 days
11. 10 days
12. 10 days
13. 2 weeks
14. 240 days of work on annual calendar approved by superintendent
15. 5 days
16. At least one week
17. business officers and staff do not take the same days off as each other
18. One week
19. two weeks
20. Two weeks
21. variable

**Question 23** Does the district use a purchasing system which allows equipment and supplies typically used on campuses or by support departments to be purchased without approval from a central office administrator?
Extension opportunity reads: If you answered yes, list the title(s) of employees that can authorize purchases?

22. All Budget Managers

23. Campus administrators and dept heads have control of their budget; given purchase orders at beginning of year along with budget allocations; all po’s are signed by business office and supt. however for monitoring.

24. Campus principal or athletic director

25. Campus Principals

26. Campus principals

27. Director of Maintenance and Operations

28. If approved in budget, it can be purchased by budget manager.

29. Maintenance Department

30. PRINCIPAL,BUSINESS MGR

31. Principal/Superintendent

32. Principals/Directors with limits as to amounts

33. Superintendent only

**Question 25** How frequently does the district’s board of trustees receive financial reports?

Extension opportunity reads: Other (please specify)

No respondent provided an extension answer for this question.
Question 28 Does the scope of the district’s annual external audit(s) extend beyond what is required by law [Texas Education Code 44.008(a)&(b)]?

Extension opportunity reads: Other (please specify)

34. activity accounts are randomly audited
35. Activity funds
36. AICPA Standards
37. as stated earlier we have two accountants look at our books
38. CAFR
39. Due to and due froms and activity accts are audited
40. evaluate all internal controls and accounting procedures
41. Extensive fraud prevention
42. federal funds
43. On occasion, I have requested special audits
44. periodic forensic audit
45. Risk assessment analysis
46. Stimulus and Stabilization monies
47. They check everything which is good.
48. We audit all Booster Clubs

Question 29 In the past three years, has the district received an advisory concerning its internal controls in the Management Letter prepared as part of the external audit?
Extension opportunity reads: If yes what remedial action was taken?

49. Activity funds operational manual was developed

50. Add additional personnel in Tax Assessor Collector’s office

51. added an additional person for disbursement of duties

52. All suggestions were completed

53. Amend before we spend!!!

54. Auditor helped us remedy they were accounting issues

55. Change of superintendent; monthly monitoring meetings established; tighter control systems on purchasing implemented.

56. Changed some job duties of those in business office

57. Contracted with ESC to help with division of duties. Small district and has few personnel to take care of all responsibilities.

58. corrected

59. Credit Card procedures were changed

60. detailed remediation plan

61. Greater restrictions on credit card use

62. Improve activity fund management and use of armored car services for cash transfer.

63. Improved internal controls

64. Looked at current practices/changed bond maturity schedule

65. New asst. supt. For business
66. New personnel in the administration office as well as new office procedures implemented.

67. New purchasing requirements and protocols were established

68. providing for enough cash in the bank for accounts that don't reconcile until after withdrawals are made

69. recommended corrective action of auditor

70. Reconciliation was edited.

71. Revamped Campus Activity Account Admin Procedure

72. Revamped travel policy practices

73. Separated functions

74. The district complied with the recommendation of the auditors.

75. we changed duties of some people in Central Office

76. WE had a negative fund balance in 2005-06 that resulted in a full TEA audit.

**Question 30 How often does the district change audit firms?**

**Extension opportunity reads: Frequency of policy established changes.**

77. 5

78. 3 years

79. 3 years

80. 5 years

81. 6 years

82. Every three years
83. every three years  
84. RFP every three years  
85. The district changes audit firms as decided by the board but no policy exists.  
86. The district requests proposals every 3 years. The same firm may succeed itself.  
87. We changed this year  
88. We just changed-1st time in 20 years. Plan to change every 5 years

**Question 33** Does the district have an internal audit committee?  
Extension opportunity reads: Please list members, by position, of the internal audit committee (i.e. board member, assistant superintendent for finance, community member, local business representative, etc.)  
89. 1 Board Member 2 Community Members the CFO  
The Board member and the community members have degrees and experience in accounting. The board member is a practicing CPA.  
90. 3 Board Members Exec. Dir. of Finance Deputy Supt. Assoc. Supt. for Business Services  
91. 3 board members, supt., asst. supt. for finance  
92. board members Superintendent Assistant Superintendent  
93. Board members, Superintendent  
94. Board officers and internal auditor Ex officio members are Supt., Asst. Supt.-Business, & Asst. Personnel
95. Depends on the area of the audit

96. Made up of board and community. CFO sits ad hoc on the committee.

97. no

98. superintendent, asst. supt. for finance, and board president

99. Supt. CFO

100. Supt., Asst. Supt., Dir. of Finance, a Prin., a Teacher, and a Community member.

**Question 37** If you answered yes to the previous question, who provides the training? (The previous question asked if the district required finance office employees to have ethics training.)

**Extension opportunity reads:** Other (please specify)

101. CPE providers recognized by Texas Society of Certified Public Accountants

102. Texas Society of CPAs

103. Texas State Board of Public Accountancy
REFERENCES


Texas Administrative Code. Retrieved from

http://info.sos.state.tx.us/pls/pub/readtac$ext.viewtac


