

School Talk

Don't Bother Me. I'm Embezzling.

The treasurer of the high school band booster club withdrew funds to pay for personal vacations. An accounts payable clerk has been siphoning off funds. The school janitor is using work supplies to clean houses on the side, and pocketing the income. These people are all embezzlers. Embezzlement is defined as fraudulent appropriation of property by a person to whom it has been entrusted. As the examples show, it can occur anywhere on the organization chart.

These are some common patterns that can occur when employees participate in workplace fraud:

- **Unused Vacation Days:** Employees who never take vacation days may be loyal but they may be hiding something. Avoiding vacations is unhealthy for both the individual and the organization.
- **Disgruntled Employee:** Someone who feels that the employer has treated him or her unfairly may seek revenge.
- **Change in Spending Habits:** If an employee suddenly starts spending more money on items beyond their financial means, it may be something to be conscious of.
- **Financial Problems:** If an employee has financial difficulties, they may turn to theft.

Common embezzlement schemes include:

- Skimming cash or inventory
- Altering bank transactions and statements
- Charging improper items to credit cards
- Overbilling suppliers or taking kickbacks
- Putting ghost employees on the payroll
- Incorrectly reporting time and attendance
- Fudging expense accounts
- Stealing checks
- Creating phony tax withholding
- Seeking fraudulent refunds
- Colluding with suppliers

Good embezzlers find and exploit the weaknesses in a financial system. They observe, for example, that the leader never bothers to check payroll or credit card transactions. They control multiple financial functions, such as writing checks and reconciling bank statements. They know when the auditors come every year and what the auditors review. They work well with limited supervision.



How can a school protect itself from insider thieves? Here are some best practice ideas for managers:

- Understand how financial transactions run through your school, whether by cash, check or credit.
- Conduct background checks and credit checks on staff that have financial responsibilities.
- Rely on a good accounting system with layers of internal controls. For example, use approved vendor files that include street address and federal identification number.
- Cross-check the payroll against personnel files to find any ghost employees or employees paid above their salary.
- Require two signers for checks.
- If feasible, adopt a policy against nepotism. Family members can too easily collude in fraud. At least, prohibit family members in the accounting function and in supervisory relationships.
- Develop a policy for writing off bad debt that does not leave responsibility in the accounting department's hands.
- Handle receipts through a bank lockbox.
- Review all credit card bills and bank statement reconciliations.
- Keep the check supply under lock and key.
- Conduct surprise spot checks and audits.
- Require accounting staff to take vacation and have others perform their duties.
- Consider a fidelity bond to protect the organization against insider theft.
- Review and update your internal controls periodically.
- Look to whistleblowers, audits and luck to unearth embezzlement.
- Call upon experts to investigate a potential problem.
- Praise employees who manage resources appropriately and prosecute any embezzlers.



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