



Fraud, Waste, and Abuse in Governments

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Playbill:

**June 15, 2026
Matinee**

**Crime
Stories of the
Early 2000's
in 4 Acts**

Act I – Setting the Scene

Act II – The Story

Act III – The Climax

Act IV – The Epilogue

Post-Credit Stinger: Preventative and
Detective Controls

Presentation will include
a trivia game played on
Slido.

Access the game via
www.slido.com.



And the
Grand Prize
is...

5-Channel, 360-
degree-view (free)
app-integrated
DashCam!

 **PURVIS GRAY**
CERTIFIED PUBLIC ACCOUNTANTS

Fraud, waste, and abuse refer to intentional deception, careless expenditure, or improper practices that misuse funds, typically in government or healthcare settings.

***Fraud** is intentional deception for gain.*

***Waste** is the needless, inefficient use of resources.*

***Abuse** is behavior that is deficient or improper, causing unnecessary costs*

Cases:

River of Riches

Detroit

Board of (Mis)Education

Miami

Game, Set, Cash

Clearwater

Waste, Abuse and Excuses

Memphis

Cash, Sash and Dash

Pageant

The Great Instrument Heist


Charters

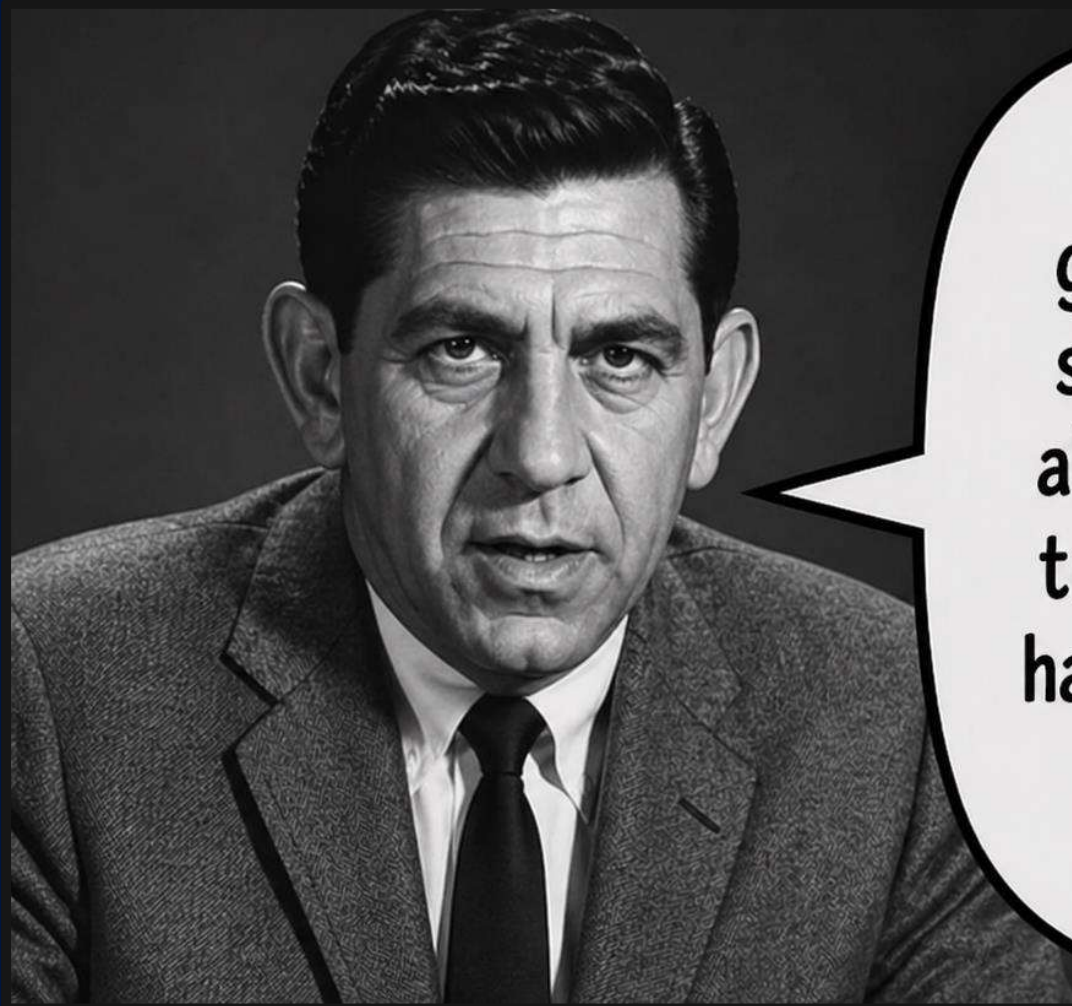
Illusion of Internal Controls

Payroll

License to Steal

Teacher Certification

- 
- Act I – Setting the Scene
 - Act II – The Story
 - Act III – The Climax
 - Act IV – The Epilogue
 - Discussion of Controls
(Preventative and Detective)



Ladies and gentlemen, the stories you are about to see are true. The names have been changed to protect the innocent.



**CASE FILE # 26-FR-
33139 -**

**The Case of the
Cash, Sash, and Dash!**

ACT I:

Setting the Scene

Picture it: a State-Wide Pageant Organization. The Board was set up in a decentralized fashion, with Directors stationed across the state. This structure was designed to allow flexibility for Board members to attend regional events throughout the year and throughout the state, often collecting donations on-site.



ACT I:

Setting the Scene

To streamline the donations process, all checks were sent to the Board President, Victoria Keyes, for deposit into the entity's bank and general ledger receipting.



ACT II:

The Story

A Board member of the pageant organization, Thomas Magnum, was approached by a benefactor at an event. The benefactor mentioned that they had provided financial support for the event, but their names/organizations did not appear in the program as expected.

Thomas said he would ensure their names/organizations were present on the next event's materials and that he would inquire about the status of their check with the Board President.

ACT II:

The Story

Thomas followed up at the next Board meeting, asking Victoria for an update on the status of that specific benefactor's checks. Victoria stated that the checks were likely sitting on her desk and would be deposited as soon as she returned from the Board meeting.

However, at the next event...

ACT II:

The Story

...It happened AGAIN!

Thomas was approached by yet another benefactor, informing him that they had not received recognition for their donation.

Therefore, at the following Board meeting, Thomas asked where the checks were and why they had not been deposited. Victoria responded that they had been deposited; Thomas countered that he could not find them in the financial records or bank statement.



ACT II:

The Story

Another Board member joined the conversation... “maybe they were deposited in a different account.”

Victoria, not realizing that she was incriminating herself, stated that they had in fact been deposited into another account.

Thomas immediately requested access to this other account and demanded to know when the money would be transferred to the main account.

ACT II:

The Story

From that point forward, Victoria was unreachable. She refused to respond to call, emails, or texts, and the funds were never transferred.

Thomas had a friend at the local police department, who started to make formal inquiries. He was informed that, since Victoria didn't live in their jurisdiction, Victoria's local law enforcement would need to take over the case.

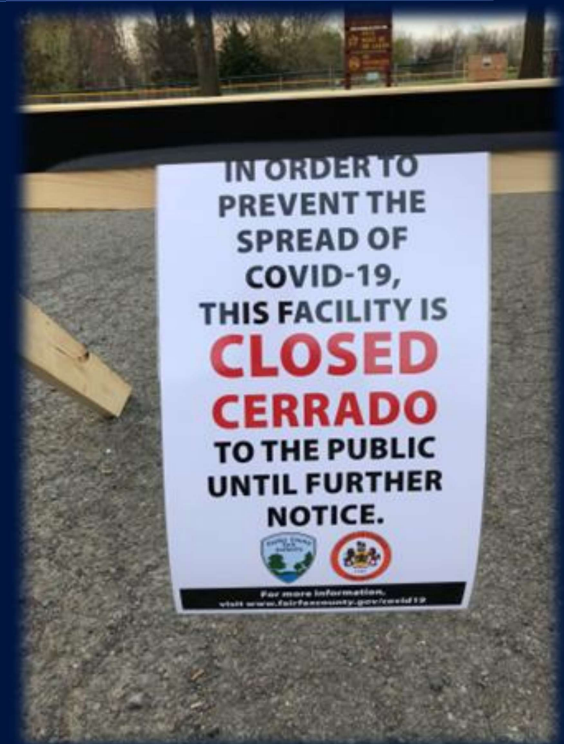


ACT III:

The Climax

Thomas was not hopeful for a resolution due to the geographical distance and his assumption that the pilfered amount was small

To his shock, the local authorities and even the Postmaster General ended up involved. It seems the authorities had time on their hands due to COVID, and multiple agencies had been doing extensive research into his complaint "behind the scenes".





ACT III:

The Climax

It turns out Victoria stole significantly more money than Thomas thought, totaling hundreds of thousands of dollars.

The account was seized, a portion of the stolen funds was recovered, and Victoria is currently paying restitution in addition to having served a prison sentence.

ACT IV:

The Epilogue

How did she do it?

Victoria had created an LLC in the name of the pageant organization (a corporation). This allowed her to deposit any checks that didn't include "Corp.". The decentralized nature of collections allowed her to "skim" a substantial proportion of the organization's revenues without anyone noticing.

CASE FILE # 26-FR-33139 -

The Case of the Cash, Sash, and Dash!

Preventative Controls

- Different people complete the following tasks:
 - Receiving/receipt the checks/cash
 - Prepare the deposit
 - Record the activity
 - Have access to the banking software/account
- Cash/check are not accepted – online payments that are automatically deposited into the bank account.
- Lockbox system (all payments sent to a bank directly, they deposit the funds and then send a detail of the deposit information electrically)
- Receivable Tracking System
- Event Software that tracks revenues, expenses, etc.



CASE FILE # 26-FR-33139 -

The Case of the cash, sash and dash!

Detective Controls

- Monthly Bank reconciliations completed by a person not receiving or recording cash/check transactions
- Comparative information for the current and prior fiscal year
- Board members responsible for documentation of receipted information
- Periodic Internal Audits



**CASE FILE # 25-FR-
48201 -**

River of Riches

ACT I:

Setting the Scene

James Moriarty was employed as the Chief Financial Officer of the Detroit Riverfront Conservancy, Inc. (the Conservancy) from 2011 through 2024. The Conservancy is a 501(c)(3) organization formed with the mission of developing access to the Detroit riverfront and was created to manage and fund a continuous Riverwalk from the Ambassador Bridge in the west to Gabriel Richard Park in the east, along with plazas, pavilions, and green spaces.

Funding for the Conservancy was provided by both private donors and public grants.



ACT I:

Setting the Scene

In his position as Chief Financial Officer of the Conservancy, Moriarty enjoyed substantial discretion in overseeing and managing the Conservancy's financial affairs.....



ACT II:

The Story

A year into his Employment, Moriarty was already up to no good. In keeping with the trope, his embezzlement scheme took three principal forms:



Fun Fact: The "Rule of Three" in literature is a powerful storytelling technique that uses trios of characters, events, or objects to create memorable antagonists and satisfying plot structures

ACT II:

The Story

First, Moriarty diverted Conservancy funds from the organization's bank accounts to a bank account in the name of "The Network, Inc.", an entity owned and controlled by Moriarty. The Network was not an approved vendor for the Conservancy and provided no goods or services of any kind to the organization.

However, between February 2013 and May 2024, Moriarty transferred approximately \$24.4 million from the Conservancy's bank accounts to an account in the name of The Network.

ACT II:

The Story

Second, Moriarty maintained an American Express account in the name of James Moriarty & Associates LLC, another of the many entities he owned and controlled. There were four American Express credit cards issued on this account.

Between November 2012 and May 2024, Moriarty used approximately \$14.9 million in Conservancy funds to pay off purchases made on this account. None of these expenditures were authorized by the Conservancy, which maintained other credit card accounts for Conservancy purchases.

ACT II:

The Story



Moriarty used the American Express account to purchase furniture, designer clothing, handbags, lawn care services, airline tickets, and other consumer goods and services for himself and his family. He'd become an expert in "making it rain".

ACT II:

The Story

Third, Moriarty used Conservancy funds to purchase cashier's checks from various financial institutions. These cashier check purchases were unauthorized, and Moriarty used the cashier's checks for his own purposes without the knowledge or approval of the Conservancy's Board of Directors.



ACT II:

The Story



Moriarty engaged in various practices to cover up and sustain this massive fraud scheme, trying to bury the evidence as deeply as possible:

ACT II:

The Story

- Moriarty falsified bank statements, altering or deleting unauthorized transfers on the statements to prevent the fraudulent transactions from being recorded in the Conservancy's books. He then provided the manipulated statements to the Conservancy's bookkeeper.

ACT II:

The Story

- He took out a line of credit with a financial institution on behalf of the Conservancy, claiming to be acting with the authorization of the Conservancy's Board of Directors.

In fact, Moriarty had no such authority, and the documents he provided to the Bank to document the authorization were forgeries. Moriarty used the funds from this line of credit (which eventually totaled \$5 million) to infuse monies into the Conservancy's bank accounts to help mitigate his substantial embezzlement from those accounts.

ACT III:

The Climax

March 2024 - During a board meeting in March 2024, the board becomes concerned over the nonprofit's seemingly deteriorating financial condition and starts to request information and responses from Moriarty. Their inquiries are met with evasive answers.

April 2024 - Moriarty takes a leave of absence, citing a physical illness; the board responds by hiring a firm to complete a review of their finances.

May 2024 - The external firm uncovers Moriarty's shenanigans; he is suspended, and the fraud scheme is reported to the police.

June 2024 - Moriarty is federally charged.

November 2024 - Moriarty pleads guilty!

ACT IV:

The Epilogue

James Moriarty was sentenced to 19 years in prison for embezzling over \$40 million from his employer over an eleven-year period. He was also sentenced to a three-year term of supervised release, ordered to pay approximately \$48 million in restitution, and ordered to forfeit all ill-gotten gains that were traceable to his scheme.



CASE FILE # 24-FR-48201 - *River of Riches*

Preventative Controls

- Segregation of Duties for the following tasks:
 - Receipt of bank statements
 - Revenue/donation reconciliation
 - Authorization of bank transfers/LOC draws
 - Recording of financial activity
 - Access to banking software/account and signatory authority
 - Bank reconciliations completed by a person with no cash/revenue access and no signatory authority
 - Vendor authorization is independent of all functions above
- More detailed financial information provided to governance members
- Dual authorization for wires and bank set up/changes

CASE FILE # 24-FR-48201 - *River of Riches*

Detective Controls

- Secondary bank notifications for wires
- Detailed analytical information for revenues, expenses, and capital project progress, prepared by an individual with access to project expenditure records but no access to cash or recording of financial transactions
- Independent, third-party confirmations of funds received
- Independent review of authorized and utilized vendors
- Whistleblower policy/hotline



**CASE FILE # 89-FR-
90001-**

**Illusion of
Internal Controls**

ACT I:

Setting the Scene

Accountants, I'm going to tell you a wonderful story...

A riveting tale of a façade of tight, effective internal controls, that unfortunately turned out to be no more than an illusion.

Like any good detective story, the curtain opens on our main character, Frank.

Frank is the Payroll Director and has full access to all functions of payroll: manual checks (physical access, manual check writing functions, and logging of manual checks), adding line items to pay, and all aspects of processing of positive pay registers.

ACT II:

The Story

Year One Audit: As part of the audit process, the entity's auditor, Columbo, met with Frank to review the controls for the payroll function. Columbo inquired regarding the payroll transaction cycle processes and controls, receiving the following responses from Frank:

- Access to manual checks – Frank stated he had access to the check stock, **but it was in another locked building, behind a locked door.**
- Tracking of use of manual checks – Frank would retrieve check stock only as needed, place it in his locked drawer, and **maintain a detailed log of each manual check issued.**

ACT II:

The Story

Additional Controls as Described by Frank:

- Check Endorsement – the district had a manual check writing machine; the machine was stored in **a non-payroll employee's locked office, in a locked file cabinet.**
- Positive Pay – the Frank had the ability to upload manual checks to the positive pay system, **but he didn't reconcile the bank accounts.**
- Line items to pay – Frank had the ability to add line items to pay as needed (back pay for rate increases, job changes, etc.) **but did not have access to the HR system.**

ACT II:

The Story

Columbo determined that the control system as described contained the necessary checks and balances. He documented an adequately structured control environment.

However, he committed the cardinal sin – he did not ask to **ACTUALLY OBSERVE THESE ITEMS**. He was flying blind.

But then.....



ACT II:



The Story

In year two, Columbo decided to OBSERVE the controls. He was shocked at what he found...

While it looked good on paper, it turns out the entire control structure was smoke and mirrors!

ACT II:

The Story

CONTROL PER FRANK

- Access to manual checks – Frank stated he had access to the check stock, but it was in another locked building (IT), behind a locked door.

OBSERVATION

- Frank walked Columbo next door to the IT building. Not only did Frank have a key to open the building, he also had a key to the check stock room! There was NO log to document issued check stock. In addition, there were at least 50 boxes of blank checks lining the small storage room.

ACT II:

The Story

CONTROL PER FRANK

- Tracking of use of manual checks – Frank would retrieve check stock only as needed, place it in his locked drawer, and **maintain a detailed log of each manual check issued.**

OBSERVATION

- Frank showed Columbo his check log. It turns out the checks were not sequential because he took checks randomly from different boxes each time he went into the IT building storage room for check stock. AND HIS DRAWER WAS NOT EVEN LOCKED.

ACT II:

The Story

CONTROL PER FRANK

- Check Endorsement – the district had a manual check writing machine; the machine was stored in a non-payroll employee's locked office, in a locked file cabinet.

OBSERVATION

- Columbo had never seen a manual check writing machine before, so he asked to see it. It turns out the "machine" was a legacy credit card carbon pressure copier! In essence, the district had written Frank a blank check. The room where the machine was stored was no longer occupied, and the cabinet was not locked when Frank went to open it for Columbo.

ACT II:

The Story

CONTROL PER FRANK

- Positive Pay – Frank had the ability to upload manual checks to the positive pay transmittal system but didn't perform the bank reconciliations

OBSERVATION

- Due to the failure to implement documented controls as listed in the previous slides, this unrestricted and unmonitored access to positive pay meant that Frank was in the unique position to be able to both commit a fraud, conceal the fraud, and avoid detection due to lack of complementary detective controls in place.

ACT II:

The Story

ADDITIONAL ACCESS

- Line items to pay – Frank had the ability to add line items to pay records as needed (e.g. Pay codes for backpay for rate increases, job title changes, etc.

OBSERVATION

- Initially, this ability was not considered to be incompatible with Frank's other duties and access based on the documented control structure containing adequate mitigating controls to prevent and detect fraudulent activity. However, failure to appropriately implement the documented controls made this access grossly incompatible with an appropriate segregation of duties.

ACT II:

The Story

- **As if this wasn't already the perfect storm...**
- **THE PLOT THICKENS**
 - The payroll director had cancer
 - Payroll did not report to finance, so they had no ability to add controls or mitigate the potential for fraud
 - No audit trails or other reports were being run to mitigate the risk of fraud/error

ACT III:

The Climax

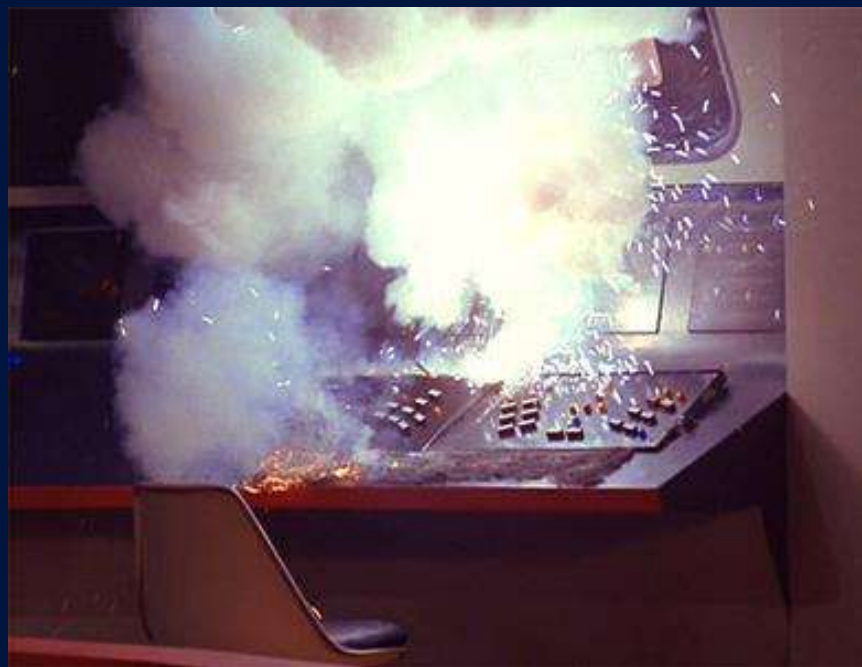
It was EXPLOSIVE

It was RIVETING

It was...

Nothing...

No fraud occurred.



ACT IV:

The Epilogue

Despite the lack of functioning controls, no fraud was ever found, no allegations of fraud were reported, and no significant resulting errors were detected.

However, this serves as a cautionary tale of the false sense of security provided by illusory control structures.



CASE FILE # 89-FR-90001 - Illusion of Internal Controls

Preventative Controls

- The following tasks (duties) should be appropriately segregated among different employees:
 - Adding line items to pay
 - Preparing and uploading the positive pay file
 - Access to check stock
 - Access to manual check writing machine

CASE FILE # 89-FR-90001 - Illusion of Internal Controls

Detective Controls

- Audit Trail reports (supporting documentation) for:
 - Changes to payroll (line items added to pay, etc.)
 - Manual checks
- Routine internal reviews of:
 - Manual check log
 - Positive pay reconciliation



**CASE FILE # 19-FR-
33755 -**

Game, Set, Cash

ACT I:

Setting the Scene



The curtain opens on 58-year-old Don Johnson, Athletics Division supervisor for Clearwater Parks and Recreation. As part of his job, Don collected cash payments from vendors in exchange for the rights to sell concessions at the park, as well as fees for use of facilities for other entities, leagues, etc.

ACT II:

The Story

The story begins with a simple accounting discrepancy; a member of the finance department started noting differences. Eventually, questions were escalated to Don for further explanation and clarification.

Initially, Don claimed that he had been taking payments from the food truck vendor and applying them to the accounting records for the Tennis Complex in order to make the Complex's finances appear better than they were.

When he was asked to provide paperwork to back up the claim, Don resigned.

ACT III:

The Climax



An investigation was launched after Don resigned. It was determined that Mr. Johnson received \$54,000 from LaLiga Mexicana, an amateur soccer league, from 2013 to 2018, that never made it onto the books. The investigation also uncovered that he had diverted payments from a local food truck vendor in the amount of \$26,000 PER YEAR from 2014 to 2018, pocketed \$2,210 from a men's baseball league and swiped about a \$1,000 in ticket sales from a tournament.



ACT IV:

The Epilogue

How did he do it?

Due to the decentralized cash collection and financial reporting systems, lack of appropriate tracking of receivables, and incomplete segregation of duties for collections, receipting, and recording of cash transactions, he was able to perpetrate and conceal his fraud for years.

SEGREGATION OF DUTY

Segregation of Duties Definition

Segregation of Duties(SOD) is a concept of separating "incompatible duties" so that 1 person doesn't have all 3 duties



Safekeeping

Holding the asset
or access to asset



Authorization

Approving



Record-Keeping

Keeping track of
the asset/ liability

CASE FILE # 19-FR-33755 - Game, Set, Cash

Preventative Controls

- Eliminate or minimize cash collections (e.g. require check/money order or electronic payments)
- Where cash must be accepted, centralize collections to a single responsible individual
- Segregate the following duties:
 - Contract approval
 - Fee setup
 - Payment Collection
 - Reconciliation
- Use of Prenumbered Receipts
- Mandatory Vacations for Employees

CASE FILE # 19-FR-33755 - Game, Set, Cash

Detective Controls

- Finance personnel separate from the collections function should independently compare fees per contracts to revenues reported
- Analytical review of expected revenues
- Surprise cash counts
- Internal Audit Reviews





**CASE FILE # 04-FR-
94101 -**

License to Steal

ACT I:

Setting the Scene

A long time ago, in a school District far, far away, there was a policy in place stating that the District would prepay all teachers' certifications for the over 3,000 licensed District employees annually, and each individual licensee would be responsible for reimbursing the District.

Reimbursements were to be remitted in person to the District, at the reception desk.

Unfortunately, in an egregious oversight, the policy did not include requiring a journalized receivable with a subsidiary detail of licensees OR for maintenance of records of reimbursements received vs. still owed.

ACT II:

The Story

A member of the finance department sat at the reception desk; Let's call her Jennie. Everyone was under the impression that Jennie only received cash payments for minimal, unusual items, and not often.

Jennie used a single prenumbered receipt book for all types of receipts, and she would provide the receipts and associated cash to finance daily for deposit. Those amounts were taken to the back-up receptionist, Adrian, to be counted and prepared for deposit.

ACT II:

The Story

One day, Jennie had to miss work. Adrian, as the back-up receptionist, noted that several items came in that needed to be receipted and remitted to finance for deposit. Adrian proceeded to pull out the receipt book and started to complete the receipting process per District guidelines.

During the receipting process, Adrian noticed that the previous day had more receipt copies in the book than had been remitted to him for deposit.

ACT II:

The Story

Adrian, with his Spidey senses tingling, sampled a few more days and cross-referenced the receipt copies against the deposits made for the corresponding days.

He realized that several of the previous days' receipts not been remitted for deposit, including a substantial number of receipts from the past month associated with the certification reimbursements.

And so...Off to the Finance Director he went!

ACT III:

The Climax

The District had over 3,000 employees; due to the nature of school Districts, a large proportion of them were teachers.

So, around 2,500 teachers at a \$75 annual renewal fee each...

A staggering ~\$187,500 was up for grabs annually!



ACT IV:

The Epilogue

Due to the lack of adequate recordkeeping, Jennie, while manning the reception desk alone, was able to divert roughly \$65,000 in certification fee reimbursements...

IN ONE YEAR ALONE!!!

This was a classic case of cascading failures.



CASE FILE # 04-FR-94101 - License to Steal!

Preventative/Detective Controls

- Secondary Finance accountant reconciles receipt log to bank deposit and accounting records periodically
- Cash payments are not accepted
 - Consider Payroll Deduction for reimbursement
- Receivable Tracking System
 - Includes creation and periodic reconciliation of subsidiary licensee listing to the general ledger receivable balance



**CASE FILE # 04-FR-
33010 -**

**Board of
(Mis)Education**

ACT I:

Setting the Scene

Josie Turner was appointed to the District 7 Board seat in 2015 by the then-Governor and subsequently won elections in 2016 and 2020.

Known as a conservative voice on the board, she was eventually elected Vice-Chair in 2022.

Her long tenure with the District, alongside the District's self-reporting credit card transaction processing system, led to a years-long fraud.

So the saga begins.....

ACT II:

The Story

Josie Turner had established herself as a strong conservative school board member with 7 years of "exemplary" service under her belt. To facilitate fulfillment of her school board duties, she was permitted the use of two district credit cards.

District policy allowed each board member the use of a P-Card and a Travel card to conveniently cover minor district office expenses, travel for official business, and purchase of school supplies for students within their specific districts. Limits could be increased by members as needed without review or approval.

ACT II:

The Story

Despite many years of consistent and judicious service, Josie abruptly resigned in December of 2022, citing a Florida Law that banned elected officials from working as Lobbyists.

Her abrupt resignation forced District administrators to complete her final months' self-reporting for her credit card charges.

The review uncovered questionable charges for December 2022 that prompted further investigative procedures.

ACT III:

The Climax

The internal review of the credit card charges began in January of 2023 and showed exorbitant misuse and wide-spread altering of supporting records, eventually uncovering a years-long campaign to conceal her fraud.

Inappropriate charges uncovered included:

- \$9,000 on travel to Disney/Universal/Las Vegas
- \$42,000 on gift cards from three retailers (Walmart, Stables and Office max)
- \$49,000 on personal items, groceries, equipment for a restaurant (owned by a related third party), and many other miscellaneous household items.

ACT III:

The Climax

Near the end, she'd become more brazen. The investigation determined she often made multiple purchases on the same day...some within minutes of each other, at the same location. She would also regularly engage in multiple transactions across locations on the same day, but always for amounts just below the threshold for additional scrutiny set by district policy.



ACT IV:

The Epilogue



Josie Turner's trial has yet to begin but she has plead not guilty.

We'll see how that works out for her...



CASE FILE # 04-FR-33010 - *Board of (Mis)Education*

Preventative Controls

- Secondary approval of credit card reconciliations (as opposed to just allowing cardholders to self-report and enter account coding).
- Secondary approval of temporary credit limit increases
- Credit Card statements are initially received by Finance rather than the individual
- Employ the use of a credit card carrier and pass-through recording system that would not allow manipulation or altering of underlying records.

CASE FILE # 04-FR-33010 - *Board of (Mis)Education*

Preventative Controls

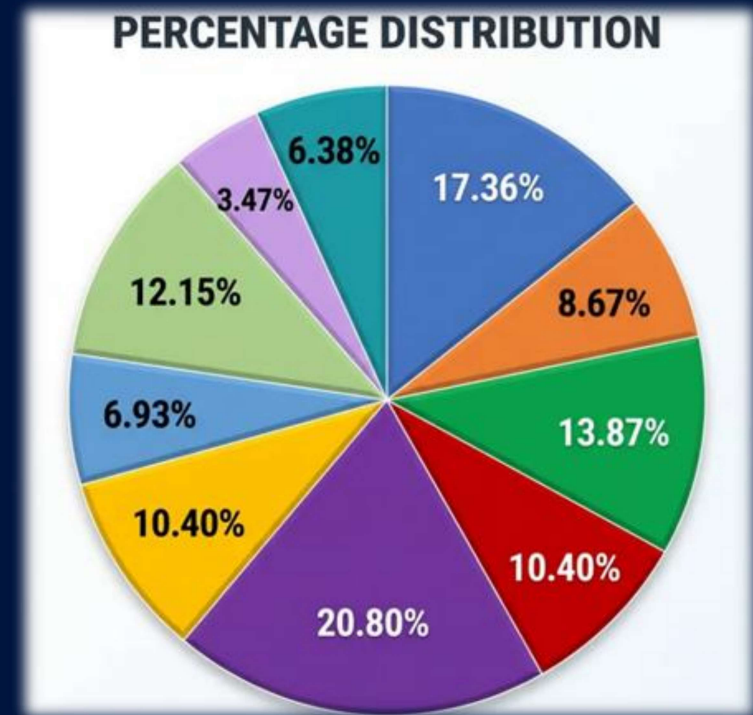
- Credit card limitation controls for:
 - Total spend per day (daily limit)
 - Number of transactions allowed per day
 - Profile by user (allowing only certain types of transactions – Merchant category limits)
 - This would automatically lock out the ability to purchase disallowed items, such as gift cards or large equipment like stoves, fridges, etc.



CASE FILE # 19-FR-33755 - *Board of (Mis)Education*

Detective Controls

- Internal review of expenditures (including travel-related) on a more frequent basis to ensure they are reasonable, properly approved, and fully supported.
- Analytical procedures to review expenses and coding.





**CASE FILE # 16-FR-
34471 -**

**The Great Instrument
Heist**

ACT I:

Setting the Scene

Nancy Drew, District Finance Director, had begun to harbor suspicions that the principal of Charter Middle School (CMS) was up to something nefarious, citing a lack of timely reporting and inconsistencies noted in data provided to her.

In an effort to meet their own reporting deadlines, the District asked their own audit firm to complete the audit of CMS.

The District began stealthily requesting information from CMS through a Board Member, who then provided that information to the District's internal and external auditors for a detailed review.



ACT II:

The "Cover" Story

CMS was affiliated with one of the District's High Schools and shared central management and financial reporting functions.

As the year progressed, tensions grew between CMS and the High School due to untimely and incomplete responses to information requests and continued misunderstandings regarding a sub-lease agreement wherein the High School allowed use of a portable classroom unit (payments toward shared facilities, expectations of future ownership, etc.) .

Eventually, financial difficulties at CMS compounded to the point they were unable to make their monthly sublease payments.



ACT II:

The "Cover" Story



Despite not paying the monthly rent, CMS continued to cover costs related to mobilization and rehabilitation of the large portable covered by the sub-lease agreement. The portable was shared by both schools at the time, but it was expected that it would eventually be used solely by CMS.

ACT II:

The "Cover" Story

Tensions finally came to a head when the principal of CMS discovered that the High School's primary lease contained a prohibition against sub-leasing without permission. Though CMS was initially under the impression that the costs paid toward the portable would culminate in ownership, this revelation meant that the "Sub-lease" between CMS and the High School for the shared facilities was not valid, and that the anticipated transfer of ownership would never occur.



ACT II:

The "Cover" Story

After further discussion and review of supporting documentation, it was determined that there was no written agreement between the High School and CMS covering the shared facilities, renovation costs, or future sole use of the portable.

CMS's principal sent a letter to the Board detailing the information above and insisting that CMS was now owed back all funds paid towards rent of the existing facility AND renovation/relocation costs incurred to make the portable usable.

ACT II:



The "Cover" Story

But as it turns
out...

**THIS WAS ALL
A
DISTRACTION!**

ACT II:

The Story

While the debates over the shared facilities, portable, and lease/sub-lease fiasco were ramping up, the audit of CMS was plugging along.

During audit procedures, the auditors were running into one roadblock after another in obtaining requested support for transactions, inquiry responses, and other information.

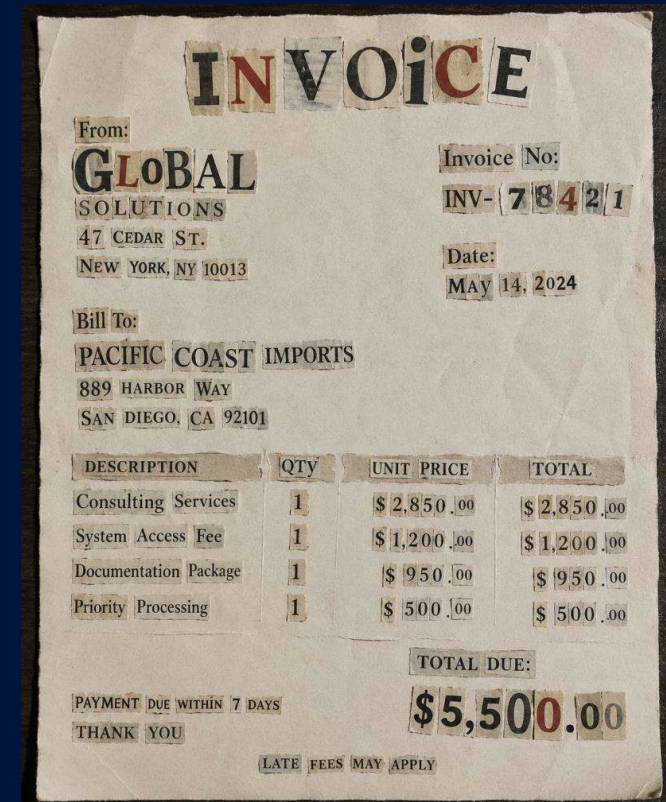
The majority of the conspicuously elusive documents related to the ownership and purchase history of certain band equipment.

ACT II:

The Story

The entire situation started to unravel when a member of the parent group requested the return of the band equipment. This request eventually came to the attention of the internal auditors, who had recently reviewed invoices for the purchase of said equipment.

The internal auditors recalled that the invoices used to substantiate the purchase of the band equipment looked messy and cobbled together, some as obvious as a movie cliché ransom note. This prompted further investigation and review.



ACT II:

The Story

The internal auditor became convinced that the invoices provided were not the originals. Therefore, to ensure that the information was accurate, the Internal Auditor called several of the vendors (local businesses) to request the original invoices, garnering interesting results.

Not only did the business have no record of the sales, but in some cases, they didn't even sell the type of equipment listed!

It turns out, the questioned equipment was purchased from a board member. The invoices provided from this board member (after multiple requests) appeared similar to the ones above.

ACT III:

The Climax

After all the back and forth – sorting through the lies and half-truths - it turned out that the band equipment invoices were all fake!

Worse, the Board member responsible for the sales was the Principal's mother. Additional expenses associated with the purchases (shipping, etc.) were also discovered to either be supported by completely fabricated invoices or entirely unsupported!

As if things weren't messy enough, it was discovered that the bookkeeper was the Principal's sister, and her brother was a teacher at the school as well.

ACT IV:

The Epilogue

After an ethics violation case was opened, the Principal was removed from her post. Subsequent to the audit, the State determined that there were approximately \$45,000 of unsupported revenues received by the District as reimbursement for the equipment, and the District was required to repay the State, not the Principal.



CASE FILE # 16-FR-34471 - **The Great Instrument Heist**

Preventative Controls

- Nepotism Disclosure Requirements
- Board Approval of Related Party Reimbursements
- Formal and documented procurement policies

Detective Controls

- Review of known related party transactions
- Board-level review of transactions
- Documentation retention requirements with periodic internal reviews of compliance



**CASE FILE # 26-FR-
38101 -**

**Waste, Abuse, and
Excuses**

ACT I:

Setting the Scene

State Comptroller Joe Hardy delivered a blistering opening to his presentation.

“Large portions of the forensic audit are not even done yet, but in my opinion, as Comptroller, this is the worst management of any organization I have seen in my career. I would say it is unprecedented for an organization of this scope and size,” Hardy said.

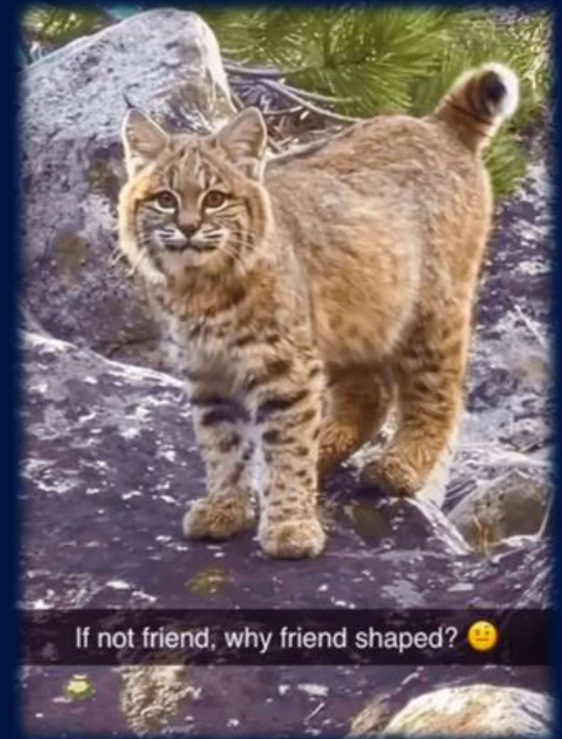
The school district he is currently lambasting is massive, with 200 individual educational sites and a budget of nearly \$2 billion.

ACT II:

The Story

Appearances can be deceiving...

Despite having three consecutive years of a clean audit by the State, the District was plagued with sweeping allegations of misuse of public funds, deleted documents, and severe mismanagement of school facilities. These mounting concerns—coupled with high staff turnover and operational disarray—drove state leaders to authorize a deeper forensic investigation.



If not friend, why friend shaped? 😊



ACT III:

The Climax

Per the preliminary findings, the external auditors were encountering significant pushback related to provision of the information necessary to complete audit procedures.

Initial procedures identified \$1.1 million in blatant waste and abuse. Another \$1.7 million in transactions were classified as “policy violations” that did not rise to the level of waste or abuse.

This was after completing only 25% of the audit!

ACT IV:

 DECEMBER 						
← 32 DAYS →						
SUNDAY	MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY	SATURDAY
1	2	3	4	5	6	7
8	9	10	11	12	13	14
15	16	17	18	19	20	21
22	23	24	25 <small>Christmas Day</small>	26	27	28
29	30	31	32			

The Epilogue

In one example, a former employee received pay for four months after separating from the district. In another, the district was invoiced for 32 days of work by a mentor program in December, which only has 31 calendar days, and only 13 in-school days.

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Internal Control Assessment Findings

The forensic preliminary findings for the fiscal years 2022 through 2024 outlined significant failures in internal controls, policies, and procedures that allowed for these issues to occur. The interim forensic audit identified **175 total deficiencies**, including **44 specific internal control failures** and **51 IT and cybersecurity deficiencies**.

State auditors characterized these breakdowns as a systemic "culture of apathy and carelessness" across nearly every operational layer.



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Internal Control Assessment Findings

Specific issues included (but are DEFINITELY NOT LIMITED TO)

- No procurement policy governing requisitions, bidding thresholds, competitive processes, and procurement authority.
- Lack of Contract Deliverable Verification
- Structuring Contracts to Evade Oversight
- Weak Expense Report Monitoring
- Severe Document Mismanagement
- Noncompliant Payroll
- Weak IT controls

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Preventative Controls

Procurement & Vendor Preventative Controls

- **Three-Way Matching:** Mandating that accounting software automatically block vendor payments until the Purchase Order (PO), Receiving Report/Proof of Deliverable, and Vendor Invoice perfectly match.
- **Automated Threshold Triggers:** Programming the procurement system to automatically flag and freeze multiple contracts to the same vendor that total just below the board-review threshold.
- **System-Enforced Bidding Blocks:** Utilizing Enterprise Resource Planning (ERP) software that completely blocks procurement officers from issuing a payment or PO to a vendor whose contract has expired or lacks an active competitive bid number.
- **Legal Account Freezes:** Establishing bank-level controls that prevent the transfer of public funds into specialized accounts (like the STEM construction account) until an authorized, executed legal contract is uploaded into the system.



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Preventative Controls

Payroll & Human Resources Preventative Controls

- **Automated HR-to-Payroll Offboarding Integration:** Linking the Human Resources Information System (HRIS) directly to payroll software so that changing an employee's status to "terminated" instantly and automatically freezes all future salary disbursements.
- **System-Enforced Duplicate Checks:** Implementing automated software validation rules that reject any payroll run containing duplicate employee IDs, duplicate vacation payout codes, or identical bank routing numbers within the same pay cycle.
- **Mandatory System Workflows:** Hardcoding the HR onboarding software to prevent a new employee profile from being finalized/activated until all required documentation, such as Form I-9s, are digitally uploaded and verified.

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Preventative Controls

Financial Disbursement & Expense Preventative Controls

- **Digital Signature Hard-Stops:** Utilizing digital accounting workflows that refuse to process or route an invoice for payment if the required "authorized management signature" field is empty.
- **Automated P-Card Spending Blockers:** Programming corporate procurement cards (P-cards) with strict merchant category code (MCC) restrictions and daily transaction limits to stop unauthorized spending before it occurs.
- **Expense Reimbursement Checkpoints:** Deploying expense management software (like Concur or similar) that uses AI or automated rules to reject travel reimbursement submissions if required itemized receipts are missing.

CASE FILE # 26-FR-38101 - *Waste, Abuse and Excuses*

Preventative Controls

Physical Security & Access Preventative Controls

- **Electronic Access Control Systems:** Replacing curtains and standard keys with badge-swipe or biometric electronic locks on all sensitive record rooms to restrict entry strictly to authorized HR personnel.
- **Role-Based Access Control (RBAC):** Setting strict digital permissions within the district's network so that administrative staff can only view, modify, or delete files directly relevant to their specific job description, preventing widespread data mishandling.

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Detective Controls

Procurement & Vendor Detective Controls

- **Data Mining for Split Invoices:** Running monthly data scripts to search for sequential invoice numbers, multiple payments to the same vendor on the same day, or distinct transactions from a single department that sit just under the board-approval threshold.
- **Independent Deliverable Audits:** Conducting random quarterly reviews of consulting contracts to verify that physical or digital proofs of completion—such as written reports or sign-in sheets—are attached to the paid invoice file.
- **Post-Payment Vendor reconciliations:** Performing annual vendor audits to cross-reference district spend against active, legally executed contracts to flag any payments made after an agreement officially expired.



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Detective Controls

Payroll & HR Detective Controls

- **Ghost Employee Reporting:** Running quarterly payroll cross-checks against the active building-access badge logs or IT network login activity to catch employees who are receiving paychecks but have not logged into a computer or swiped into a school.
- **Automated Duplicate Detection:** Setting up bi-weekly automated exception reports to flag identical employee ID numbers, duplicate vacation payouts, or matching bank accounts within the identical pay cycle.
- **Document Completion Sampling:** Performing monthly spot-checks on a random sample of 10% of personnel files to ensure compliance with federal I-9 requirements and flag missing onboarding documents.

CASE FILE # 26-FR-38101 - *Waste, Abuse and Excuses*

Detective Controls

Financial & Disbursement Detective Controls

- **Unapproved Transaction Flags:** Generating automated system alerts for any processed invoices that moved through the system without an authorized electronic management signature or approval stamp.
- **P-Card Data Analytics:** Using automated expense analytics software to flag keyword anomalies (e.g., "gift card," "electronics") or suspicious weekend transactions on district procurement cards.
- **Budget-to-Actual Variance Analysis:** Requiring department heads to review monthly budget-to-actual variance reports to immediately investigate unexplained spending spikes in discretionary accounts, such as leadership coaching or specialized construction funds.

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Detective Controls

Physical & System Access Detective Controls

Badge Access Log Reviews: Extracting and auditing the electronic door logs for sensitive record rooms to see who entered the room outside of regular business hours or without an HR job code.

User Privilege Audits: Conducting semi-annual IT user reviews to flag and remove active software accounts belonging to terminated employees or workers who have switched departments.