

Control Environment

The attitude, awareness, and actions of your district's leadership team could make you vulnerable to crime and fraud. Establishing a culture on the expectation of honest and ethical behavior by all employees will protect your district

In February 2012, officials from Pennsylvania's Bensalem School District contacted the local police. A tip alleged that the foreman and members of the grounds crew manipulated time cards to indicate employees were on the job when they weren't. The tipster said that two employees, absent for one year and three years, respectively, were paid for shifts they never worked.

The losses associated with this incident were estimated to be more than \$200,000. Two arrests were made in this "ghost employee" scam.

Another tip led police to investigate problems in the district's bus garage. According to police, employees stole

tires and batteries purchased for district vehicles, then sold them on the Internet, and kept the cash. One individual allegedly gave 30 vehicles to a junkyard without administrative approval. As compensation, he and his friends scavenged parts for their personal use, charging the district's account.

Police believe the scams have operated for 10 to 20 years. This February, a year after the initial investigation, police arrested 18 additional current and former district employees, including a previous business manager. Investigations continue, with the possibility of more arrests. Preliminary loss estimates are at more than \$1.5 million.

Unfortunately, what occurred in

Bensalem is not rare. How does it happen? Sometimes districts simply lack the organizational structure to protect themselves from internal and external threats. At other times, controls may be in place but the oversight necessary to verify that policies and procedures are operating effectively is lacking. Now is a good time to assess your district's control environment and evaluate it to determine if board oversight is effective.

Tone at the top

One of the most important attributes of a well-run school district is the control environment. Auditors use this term to describe the attitude, awareness, and actions of the administrative team and governing board. Sometimes called internal control structure, organizational culture, or "tone at the top," the control environment provides the necessary discipline and structure to ensure students receive the requisite curriculum and district resources are used wisely.

You will not find a control environment line on your balance sheet or income statements. But you can determine whether your district is effective by observing how business is conducted. Notice the administration's leadership style when interacting with employees, vendors, parents, and students. Reviewing your board policy and evaluating the consequences for non-compliance will be illuminating.

School districts often are assumed to have good control environments because education is heavily regulated. Both state and federal laws and regulations mandate controls to protect students and staff. Faculty and administrators must be highly trained and certified by state agencies. Report cards on stu-



dent performance are sent home to parents and to federal and state agencies as well. Video surveillance and visitor screenings monitor campus security. Practice fire drills and lockdowns are mandated.

On the surface, it may appear that a school district has developed an effective control environment. However, existing procedures and regulatory requirements do not ensure compliance. The culture within the district must support ethical conduct.

Ethics

Ethical leadership, dedicated to implementing district policies and regulatory compliance, is essential. Establishing an ethical culture within the district requires a strong board. Without such leadership, the probability of illegal activity and difficult financial troubles increases dramatically.

The board can influence district culture by reviewing its mission statement. In addition to describing district philosophy and a commitment to educational competence, it must articulate an expectation of integrity and ethical behavior. It also can encourage employees to report deviations from established policies and procedures. These elements instill the expectation of ethical behavior and contribute to an effective control environment.

The board is responsible for developing a range of policies that guide the district. These should include a comprehensive code of conduct that addresses conflicts of interest, demands adherence to policies and regulations, and encourages personal responsibility. Of course it's important that all district employees are aware of the code of conduct. The board's expectation of ethical behavior is reinforced when employees annually acknowledge in writing that they have read the policy, understand it, and will abide by it.

Within a strong control environment, employees may experience peer pressure to do the right thing and report ille-

gal acts when discovered. To be effective, develop a procedure that allows employees to safely report unethical activity without fear of reprisal.

Administrative support

Your administrators must be committed to implementing board policies and modeling exemplary behavior. A key component of an effective control environment is how administrators respond when employees violate district policies or the code of conduct.

The superintendent and board must decide how disciplinary action is communicated within the district. Employees must understand that, if they violate the district's behavioral standards, they will experience the consequences outlined in district policy.

Although nearly all administrators are honest and fully committed to their district's success, board oversight of administrative functions is important. Administrative override of internal controls must be strictly monitored. In addition to adopting policies that emphasize honest behavior, the board must monitor compliance with policies and procedures.

Occasionally, unique circumstances may make adherence to established procedures cumbersome. It's important to create a pre-approval process for situations where deviations from established policies are necessary. In addition, develop procedures that ensure that all policy and procedure deviations that are not pre-approved are investigated, documented, and promptly reported to the board.

Doing the right thing

It is not always easy to do the right thing. With districts under constant financial pressure, it's tempting to cut corners. However, if administrators consistently exhibit fairness and honesty when dealing with employees and suppliers, you are reinforcing ethical behavior throughout the district.

For example, a supplier's underbilling

must not be ignored. Administrators must avoid efforts to reject an employee's legitimate claim for benefits. Similarly, ensure that reports to regulatory authorities, insurers, lenders, and the public are complete, accurate, and not misleading.

Finally, both the board and superintendent must be careful to avoid undermining the control environment. Unrealistic performance targets tied to compensation, layoffs, or school closings may exert nearly irresistible pressure on some individuals to engage in fraudulent behavior.

Consider the events that occurred in March in Atlanta. Following a 21-month criminal investigation, a grand jury indicted a retired superintendent who received hundreds of thousands of dollars in bonus payments resulting from questionable student test scores suggesting improved performance. Thirty-four other educators also were indicted for racketeering, false statements, influencing witnesses, and theft associated with test results tampering. A prior investigation in 2011 found cheating by more than 150 educators in 44 Atlanta schools.

Atlanta is not alone. School districts across the country have launched investigations regarding allegations of teachers and principals tampering with test results to increase bonuses or to prevent school closings and job losses. Don't let your district find itself profiled in tomorrow's headlines.

Working together, your board and superintendent can establish a district culture based on the expectation of honest and ethical behavior by all employees. You will be well positioned to deliver a financially sound education program in a bright and healthy control environment. ■

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