

INSIDE EDUCATION

Part 5 Finance: Can a FAC protect the school treasure chest?

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It should now be clear that education dollars are not immune from corrupt indulgences, and that school budgets in the approval phase and spending process leave much to be desired. If dollars are to be spent more wisely and if fraud is to be prevented, a new thought process is needed about budgets--how financial transactions are monitored, how resources are used, and how the treasure chest can be secured from being plundered. Part of the rethinking process must also include prevention—making it difficult for waste and fraud to take place.

To begin with, school boards must keep a very unpleasant fact in mind. Don I. Tharpe, the executive director of the Association of School Business Officials (ASBO) claims that “*embezzlement happens a lot more frequently than we are willing to admit.*” However, ASBO does not track cases of theft and fraud and neither does anyone else. With billions of dollars involved, it’s amazing that such a void exists. Since such information is not easily available, school officials are handicapped in keeping an intelligent and forensic eye on district funds.

Therefore, it’s important for the state to be much more proactive in helping school districts guard the treasure chest; after all, education is a state responsibility. In Texas, the State Comptroller—a 60-year old grandmother who was elected to the position--is performing this task. Unlike previous office holders, she had a zeal for looking at school operations and doesn’t wait to be invited to audit school operations (transportation, retirement plans, curriculum alignment, finance, etc.); instead, she unhesitatingly “*storms the ramparts.*” Her proactive efforts in 32 school districts have saved over \$85,000,000 in just two years. In fact, she won a prestigious award for government innovation from the John F. Kennedy School of Government. This program demonstrates the value and impact of independent and aggressive audit reviews.

Unfortunately, such efforts are designed to uncover fraud rather than prevent fraud. Another sad factor—contrary to widespread belief—is that normal auditing reviews are not designed to uncover fraud. This is why there must be a forensic auditing process—constantly, not occasionally, studying, analyzing and interpreting every financial transaction.

A simple, easy, and a no-cost way to implement such a proactive prevention program is to have an independent FAC--Forensic Auditing Corps—composed of trained citizen volunteers. Its function would be twofold: (1) recommending to the board of education what policies, procedures and practices should be adopted to prevent fraud, and (2) conducting forensic audits of school finances and performance that would identify mismanagement and wasteful practices. This is the most effective way to discourage, as well as, catch the Robin Hood Hogs. The details of the FAC will be explored more thoroughly in a forthcoming article explain how to establish such a group, exactly what they would do, documents to analyze, etc.

In every town there are retired educators, accountants, finance officers, etc. who would be willing to become corps members; and, in many communities, businesses would be more than willing to contribute some of their expert personnel and resources. It would be even more effective if the town participated so that all taxpayer dollars would be under constant and independent FAC review. Obviously, the FAC would need some education and training and an excellent resource is, “*How to Create a Community Guide to Your School District’s Budget*” (Public Education Network free download). The guide was followed in Wake Forest, IL and a copy of their report, “Quality Matters 2001,” is available on the Internet. Another useful resource is *Systematic Assessment for Quality Schools* by Thomas F. Kelly, Ph.D. (free download).

The FAC would certainly “keep at bay” the Robin Hood Hogs and, thereby, prevent fraud attempts. As an example, one responsibility of the FAC would be to regularly review specific activities that may be prone to fraud such as the high school yearbook account. The FAC would examine the yearbook page by page and determine what each ad should have brought in for income, etc. and match it against what is actually reported. Sounds a little tacky? Maybe, but this is how a diligent principal uncovered a yearbook embezzlement scam of over \$8,000.

Having an active FAC would also defang critics who constantly claim that taxpayer dollars are mismanaged. Unfortunately, the examples of mismanagement, fraud, and theft (there are many more) prove the critics have some justification for their criticism.

The fundamental problem with more effective oversight by a school board is that board members are not provided with the training they need to do their very complex and demanding job—it certainly does not occur through osmosis after election. Why such training is not being provided by their associations and the state board of education is a real mind-boggler

So no one should be surprised that it would be hard to find a school district that has an aggressive and proactive prevention program designed to ferret out waste and fraudulent practices, but they do exist to some degree. Chicago employs a former FBI agent as Inspector General to “investigate charges of waste, fraud, and financial mismanagement involving the Chicago board of education, its employees, and contractors.” New York City and Pennsylvania have Inspector Generals to do the same. **The problem is that the emphasis is on catching the corruptors, not on prevention techniques and procedures.**

There are some other practices and issues that need to be considered. A fundamental requirement in funds management is to have a system of checks and balances i.e. how are the financial activities being independently and regularly monitored? A Regional School District’s \$2,000,000 financial debacle could not have happened if there was a better system of checks and balances. School activity funds that are in the control of each school are another example of inadequate monitoring. There have been too many cases of activity funds being used for unauthorized purposes; such funds should be co-managed with the district finance office.

It’s also absolutely essential that training must be provided for appropriate school personnel in the proper handling of funds particularly where cash transactions occur. Yet, try to find a professional development program that includes a seminar on “funds management.”

The events of 9/11 shattered the national security complacency and it now emphasizes prevention, as well as, increased protection; likewise, schools must rethink the complacency of financial security because the treasure chests are terrorized and will continue to be terrorized unless there is increased vigilance and trained forensic eyes.

Can a SchStat program enhance the treasure chest? Look for part six.