

MB September 2, 2019

### **Introduction**

The term "occupational fraud" has come to encompass many forms of misconduct in the workplace. Although the legal definition of fraud is very specific, for most people the common use of the word is much broader and generally covers any attempt to deceive, usually to gain a benefit. Expense fraud, forgery, counterfeiting, identity theft, theft of cash and / or inventory, manipulated financial statement . . . the range of possible fraud schemes is actually endless but at their core all involve a violation of trust.

The control of the opportunity to commit and then conceal occupational fraud is really the only element over which an organization can have significant control. Occupational fraud can be broadly said to be a result of a failure in internal controls such as:

- \* Supervision and review,
- \* Segregation of duties,
- \* Management approval and delegation of authority, and
- \* System controls.

By far the top three forms of committing occupational fraud are corruption, asset misappropriation and fraudulent financial statements. I have identified none of the first at Inspire and I am certain of the third, making a determination of the middle almost impossible.

It is understood and accepted that it is the responsibility of the I.N.S.P.I.R.E. for Autism ("Inspire") Board of Directors (the "Board") to put in place an appropriate structure and staff to prevent and discover occupational fraud within Inspire.

### **My Involvement**

I am a Certified Public Accountant, licensed by both Vermont and New York, with more than 50 years of working with small businesses, a number of which were schools and /or non - profits. I joined Inspire a bit more than four months ago, having no contact before that.

It was my initial understanding that Inspire wished to "outsource" its bookkeeping and accounting. The plan was for me to devote a day every two weeks to that end. I received no hint of the actual financial and operational challenges Inspire faced.

Upon commencement of my engagement, I was immediately confronted with a lack of established financial procedures needed to reasonably control check signing, payroll, invoicing, receipts, collections, petty cash, credit card use, check issuance, bank reconciliations and financial reporting.

I have since become aware of the State Board of Education's continuing concerns, which I have been asked to address and make suggestions to assuage.

### **As to Internal Controls and Day to Day Operations**

On or about June 1st, I authored a detailed memo which directly addressed each aspect of the financial operations at Inspire. Particular attention was given to segregation of responsibilities and management approval and oversight of daily functions and decisions.

I am pleased to report that these recommendations were easily and promptly implemented. Functions have been distributed amongst four qualified and unrelated individuals. Inspire now has effective financial and administrative operations and real internal controls.

### **As to Inspire's Financial Statements**

It is clear to me that knowingly false financial statements were

prepared and presented to the Board, upon which decisions and plans were made. Inspire's accountants went so far as to write to say that there were not adequate books and records to prepare financial statements and / or tax returns from.

On an ongoing basis that has changed for the better. Inspire now has an up to date QuickBooks accounting file and professionally prepared financial statements have been timely presented to Board for review and consideration.

**Recommendation.** The Board contains the founders of the organization, a distinguished head of a local law enforcement organization and several others. Their concern with and commitment to Inspire's mission is beyond question. However, none is a financial professional and experienced with the preparation and validation of financial statements.

Therefore, it is suggested that the Board form an audit committee. It might contain a Board member and several financial professionals. Its function would be to first review Inspire's financial statements and meet with Inspire's financial staff to address in detail the source of the numbers presented and any concerns.

Additionally, as finances permit, an independent firm of accountants should be engaged to review financial operations and reports.

### **As to Other Matters of Concern**

Contrary to general belief, external audits cannot and should not be relied on as an organization's primary fraud detection method.

In a recent study, external audits of financial statements were found to be employed by over 80% of victim organizations. More than two-thirds of victim organizations had independent audits of their internal controls. Many organizations of these enterprises were required by regulators or lenders to undergo one or both of these forms of audit.

On the other hand, tips are consistently the most common fraud detection method. In an Association of Certified Fraud Examiners study, less than 10 percent of victim organizations offered rewards to whistleblowers who provided tips. Many organizations do not yet realize the importance of proactive efforts to support and encourage tips in order to effectively detect fraud.

**Recommendation.** Our staff is the lowest cost and most effective source of fraud detection and protection. To that end, I suggest a periodic and organized communication to employees:

- \* Of what we consider fraud,
- \* Where to seek confidential advice when faced with uncertain ethical decisions,
- \* Our adoption of a zero tolerance fraud policy, and
- \* A policy of rewards to whistleblowers

To this end, I suggest the publication to staff of a hotline and email address to connect with our audit committee and management's support and reward of whistleblowers. Again, the professionals on the audit committee will take the place of well meaning members of the Board.

### **Conclusion**

Profitability and fiscal validity have been restored at Inspire. It is then the mission of the Board to ensure the continuance of what has been accomplished. The discussion and suggestions in this memo provide a roadmap to that end.