

# Fraud Detected While an Employee was on Leave

## Background

### Seven-Year Fraud that Involved an Employee of 20 Years

An internal finance administrator, responsible for day-to-day finances, defrauded a school of \$375,000 over seven years.

The employee created, approved and paid 77 false invoices to himself from the funds allocated to a large building project for the school. In an attempt to avoid detection, he fabricated the documents to make it appear as if the invoices were issued by companies that had previously done work for the school.

None of the services recorded on the invoices were provided to the school.

The employee rationalised his behaviour by saying he was underpaid for the services he provided to the school over his 20 years of employment. This rationalisation enabled him to continue to defraud the school for a seven-year period.

### A Red Flag Raised while the Employee was on Leave

The fraud was detected while the employee was on leave. An external contractor became suspicious when they realised the invoices and payments for the building project didn't match up. They raised their concerns with the school's Principal.

The school conducted an internal investigation during which the fraud was detected. The school followed due process by reporting the fraud to the Ministry of Education who referred the case to the Serious Fraud Office.

The employee was sent to prison for two years and three months.

## Fraud Prevention Observations

<p>Impacts</p>	<ul style="list-style-type: none"> <li>▶ The detected financial loss was \$375,000 over seven years.</li> <li>▶ Over 100 employee and volunteer hours were taken up during the investigation. The investigation involved both employed staff and volunteers on the Board of Trustees.</li> <li>▶ The school reported that 3,000 students passed through the school over the seven-year period that the fraud was committed. These students were deprived of the opportunity to access further resources. This included teacher aides, new textbooks, school tablets, sports uniforms and programmes to support students at risk.</li> <li>▶ The Office of the Auditor General reported that the school was in the top 25 financially struggling schools nationwide and noted it was facing serious financial difficulties which would continue for many years.</li> </ul>
<p>Fraudster Personas</p>	<ul style="list-style-type: none"> <li>▶ <b>The Exploiter</b> - The employee wrongfully used their position as a finance administrator to take advantage of vulnerabilities in internal controls to benefit themselves.</li> <li>▶ <b>The Fabricator</b> – The employee produced false invoices to dishonestly gain a benefit for themselves.</li> </ul>
<p>Red Flags</p>	<ul style="list-style-type: none"> <li>▶ Disgruntled employee. It was reported that the staff member was disgruntled and difficult to work with.</li> <li>▶ The employee very rarely went on leave. Employees who don't take leave can indicate an unwillingness to expose their work to scrutiny.</li> <li>▶ Working in isolation. The employee didn't role share and would not delegate work out to other staff.</li> </ul>
<p>Effective Countermeasures</p>	<ul style="list-style-type: none"> <li>▶ This case highlights the need for effective countermeasures such as <b>segregation of duties</b>. This is to ensure that one individual is not responsible for multiple parts of a transaction.</li> </ul>

## Case Study

	<ul style="list-style-type: none"><li>▶ The fraud was detected because the contractor did an <b>audit</b> of the accounts related to the building project and raised their suspicions with the principal.</li><li>▶ Other effective countermeasures include <b>quality assurance checks</b> to ensure processes are being followed correctly and <b>fraud awareness training</b> to help all staff identify potential fraud.</li></ul>
Mitigations and Responses	<ul style="list-style-type: none"><li>▶ The school responded by strengthening their internal processes and controls. They engaged with a specialist advisor to develop a new control framework for their financial processes.</li></ul>
Link to sources	<p><a href="#">SFO Media Release</a></p> <p><a href="#">New Zealand Herald report</a></p> <p><a href="#">Stuff media report</a></p>
Fraud Tags	Public Sector, Community Public Services, Education and Training, Finance, Service Delivery and Operations, Abuse of Position of Trust.



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