

FRAUD

Most child care people are warm, friendly, caring and honest. There is a lot of trust between child care staff members, and between staff and management. It is quite shocking to the sector to find that fraud is becoming an increasing problem. Different people have different explanations - more gambling, more difficult administration which fewer people in the service can check on, computer records which only one person understands, or just the work of the Devil.

Children's services are vulnerable because they handle a lot of money, much of it in cash, while providing very little chance of "internal check" (which is the accounting term for splitting up clerical work so that one person always checks on another person's work). The risks are lower in private services where the owner does a lot of the financial management (why defraud yourself?). But many private owners, like community based management committees, rely on a clerical worker to handle the computer systems on their own or just pass everything over to their accountant, so most services are at risk.

No-one would want to destroy the trust which exists between Clerical Officers, Directors, and Treasurers or Proprietors. But there is a real need for the sector to be realistic about the risks, to understand the indicators which may make it worthwhile to check for fraud, and to know how to check. This article, based on bitter experience, tells you some indicators about people or bookkeeping which you should keep in the back of your head.

The people:

Holidays: Check that anyone responsible for finances takes at least a fortnight's holiday every year. A person who is defrauding the system gets very nervous about going on holidays, particularly for long enough so that someone else has to take over their work. Perhaps unexpected unpaid account reminders will come in when they can't get to the post first. Perhaps someone else will notice that the payroll information they are entering on the computer is different from previous periods and will check back. Replacing your admin staff for holidays is hard to organise, but very important.

Being too helpful - or not helpful enough: Someone who is cooking the books can offer to take on more and more jobs, stay late, take work home, and never delegate. They can be very matey to other staff, and be very understanding with anyone who wants to bend the rules. On the other hand, they may make it clear that they have no respect for the boss or the committee, and they may be very slow in producing documents they are asked for (so slow that the Director, the Treasurer or the Auditor forget to follow up). They may also be defensive or angry about being asked to change their systems or routines, or about being questioned - even about this article!

Lifestyle: People steal money to spend. They may have new cars, jewellery, a second home, expensive holidays. They may have a gambling habit or be playing the share market. Or they may have a lot of family stress, perhaps with money going to a son on drugs or a partner's failing business. If you can't work out where their money is coming from, remember that it might be yours. Gambling wins and family legacies can sometimes be a true explanation, but not often.

Continued page 2

RESOURCE SHEET:

Continued from page 1

The bookkeeping:

Payroll: Never sign a total payroll cheque without the list of the individual pays, and read the list. It's hard to pick that the total payroll is more than it should be, or that the accumulated total is higher. It's much easier to spot an individual pay which is too much, or a payment to a "dummy" or a person who hasn't worked that week.

"Two to sign": Never, never get cheques or withdrawal slips signed in blank or advance, even by one signatory. Never let the person who writes out the cheques be a signatory. Always have the invoice or statement attached to the cheques to be signed. The point of having two signatories is to get two people to check the amounts. You are better off having any responsible adult (even in the school next door) countersign than effectively leaving the control to one person. Fraud cheques often get signed by the least experienced signatories, so ask your back-up signatories to inform the "normal" signatory when they are asked to sign a cheque. Cheques should start the words close to the start of the line and the figures close to the \$ sign, so that "one thousand" can't be turned into "twenty one thousand" after it's signed (an example from the last child care fraud investigation!). Be very wary of internet banking arrangements. All the banks at present are a little different, and some of them have no effective equivalent to a "two to sign" requirement.

Audits: Always get the Treasurer or the Chairperson to make a routine phone call to the auditor - too many auditors report problems only to the staff, who may not pass it on if they are the cause of the problems. Tell the auditor before the audit starts if you have any doubts about whether things are right - auditors don't normally check for fraud unless they are put on notice. Check that the original audit certificate is produced at the AGM - photocopies can be forgeries based on the previous year's audit certificate. If you get an audit from an accountant who isn't in a professional firm of accountants, check that they have professional negligence insurance. If they don't have insurance and make a mistake, you may have to sue them personally, even if they were doing you a favour.

Financial reports: Make sure that you get regular monthly financial reports, that they compare actual income and expense to budget, and that they include a list of all the balances in the bank accounts and of the total debtors. Many frauds are not very sophisticated - no records are more likely than complicated bookkeeping cover-ups. Prepare a budget, and check for the reason why the reported cash receipts don't square up with the budget. Sometimes have someone who doesn't do the banking check whether the cash receipts square up with the bank statement. Some frauds start with "borrowing" money and banking it late, so check the dates as well as the amounts.

Always be suspicious if there is no monthly report, and follow up quickly. A lot of money is often taken quickly at the end, once the person realises they are already in too deep to recover. Don't wait till the next meeting, and if you have any doubts, check the amounts in the bank accounts.

Paper records: Lost financial records may be a cover-up to make sure you can't check something which was wrong. Fires, spills, burglaries or anything else which means that your paperwork can't be produced when it is wanted, are a pointer to do a thorough check on everything.

Continued page 3

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Continued from page 2

Insurance: Fidelity insurance covers you against being defrauded. It is expensive and is usually taken out for quite low amounts (eg \$10,000) which may not help much. An alternative "insurance" is to outsource your bookkeeping, particularly the payroll and the general ledger. If your accountant or bureau staff run a fraud, you can claim on the bureau's professional negligence insurance. But you need to check on them too - accountants and other professionals can also be dishonest, and at least one service has gone into liquidation without realising that the loss came from fraud.

Conclusion

Checking against fraud is like checking that the front door is locked before you leave home - it's just the sensible thing to do. None of us expect to trust or be trusted without question, and child care is no exception. If you know what to look for, you know when to ask more questions. If you recognise more than one of the indicators listed above, make sure that you follow it up.

If you find something suspicious, please contact the police. It is their job to make the decisions about whether to prosecute, and sometimes they decide there is not enough evidence. But being investigated makes it less likely that the person involved will move onto another service and do the same thing again (which has happened in more than one case in recent years).

Of course, the best outcome is that when you check you will find nothing wrong. This is a success which builds trust because you can reassure yourselves. Do it often!

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15 March 2000*

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