



## *A Message from the Private School Practice Group*

### *Tough Times = Terrible Temptations*

Welcome to BFMM's World's Smallest Newsletter, a quarterly communication about the Private School Industry that will be a source of useful insights and information to you. This issue will discuss challenging times for school employees. Economic pressures, job losses and cut-back hours have all added to the financial pressure our school employees are facing. And when the **Pressure** is combined with **Opportunity** and **Rationalization**, the **Magic Triangle of Fraud** is created.

What can schools do to prevent the Magic Triangle of Fraud from occurring and possibly resulting in a significant embezzlement or other fraudulent activity? Unfortunately, the school has little or no influence over the **Pressure** part of the Triangle.

This pressure felt by the school employee will be out of the control of the school. So, the school needs to focus on the other two areas. **Rationalization** can be mitigated if the school sets the appropriate "Tone at the Top" with a strong set of values and ethical behaviors.

The most effective use of school resources to prevent fraud and embezzlement is the **Opportunity** part of the Triangle. If the **Opportunity** is not available, the ability to commit fraud is significantly reduced.

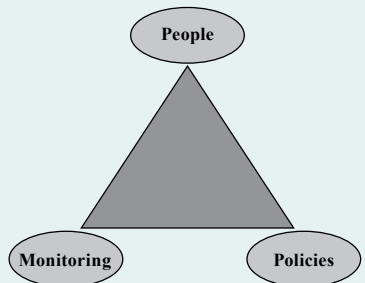
If we can answer any specific question or provide additional information, please do not hesitate to call or email.

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Batchelor, Frechette, McCrory, Michael & Co.

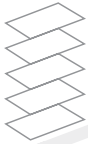
## INTERNAL CONTROL TIPS

### Reduce Opportunity with Sound Internal Controls

- Sound internal controls will include policies and procedures designed to ensure that the school's directives are carried out and that actions are taken to minimize risks that threaten the achievement of the school's objectives.
- Some types of internal controls are:
  - Financial performance review of actual operating results to budgets
  - Review of hourly employee payroll as well as review of a payroll change report for all employees
  - Physical controls over assets that are easily misappropriated (cash, laptops, and other equipment)
  - Segregation of duties



**Triangle of Sound  
Internal Controls**



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## **Fraud: It takes a “PRO.” Pressure. Rationalization. Opportunity.**

Return Service Requested

- **Constantly monitor the Magic Triangle of Fraud:**
  - » Be aware of pressures your school employees may be under. This could be financial pressure from a job loss by a spouse, family medical bills, addiction to gambling, drugs or alcohol. Consider obtaining credit references for management and financial positions.
  - » Reduce the ability to rationalize this fraudulent activity by setting the proper “Tone at the Top.” The Board and management should act with integrity in all discussions and policies. Conduct periodic risk assessment analysis to identify potential flaws in internal control.
  - » Insure that your school has strong internal control policies and procedures that are being followed. These policies need to be written. If not, they’re really not policies, just school folklore.
  - » This will allow your school to replace the Magic Triangle of Fraud with the Triangle of Sound Internal Control of People, Policies and Monitoring.

And remember...trust is **not** an Internal Control!